

# WORLD MARK

## ENCYCLOPEDIA OF THE NATIONS

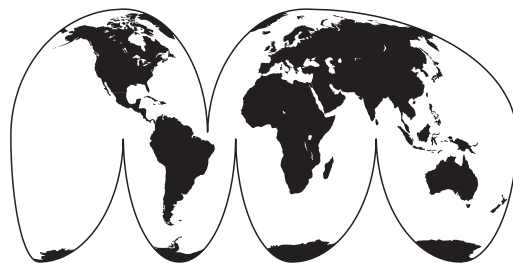


**WORLDMARK**  
**ENCYCLOPEDIA OF THE NATIONS**



**EUROPE**

# WORLDMARK ENCYCLOPEDIA OF THE NATIONS



## Volume 5 EUROPE





## Worldmark Encyclopedia of the Nations, Eleventh Edition

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# GUIDE TO COUNTRY ARTICLES

All information contained within a country article is uniformly keyed by means of small superior numerals to the left of the subject headings. A heading such as "Population," for example, carries the same key numeral (6) in every article. Thus, to find information about the population of Albania, consult the table of contents for the page number where the Albania article begins and look for section 6 thereunder. Introductory matter for each nation includes coat of arms, capital, flag (descriptions given from hoist to fly or from top to bottom), anthem, monetary unit, weights and measures, holidays, and time zone.

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## FREQUENTLY USED ABBREVIATIONS AND ACRONYMS

AD—Anno Domini  
 am—before noon  
 b.—born  
 BC—Before Christ  
 c.—Celsius  
 c.—circa (about)  
 cm—centimeter(s)  
 Co.—company  
 Corp.—corporation  
 cu ft—cubic foot, feet  
 cu m—cubic meter(s)  
 d.—died  
 e—east  
 e—evening  
 e.g.—*exempli gratia* (for example)  
 ed.—edition, editor  
 est.—estimated  
 et al.—*et alii* (and others)

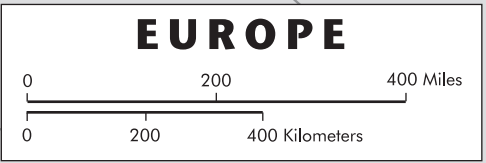
etc.—*et cetera* (and so on)  
 f—Fahrenheit  
 fl.—flourished  
 FRG—Federal Republic of Germany  
 ft—foot, feet  
 ft<sup>3</sup>—cubic foot, feet  
 GATT—General Agreement on Tariffs and Trade  
 GDP—gross domestic products  
 gm—gram  
 GMT—Greenwich Mean Time  
 GNP—gross national product  
 GRT—gross registered tons  
 ha—hectares  
 i.e.—*id est* (that is)  
 in—inch(es)  
 kg—kilogram(s)  
 km—kilometer(s)

kw—kilowatt(s)  
 kwh—kilowatt-hour(s)  
 lb—pound(s)  
 m—meter(s); morning  
 m<sup>3</sup>—cubic meter(s)  
 mi—mile(s)  
 Mt.—mount  
 Mw—megawatt(s)  
 n—north  
 n.d.—no date  
 NA—not available  
 oz—ounce(s)

pm—after noon  
 r.—reigned  
 rev. ed.—revised edition  
 s—south  
 sq—square  
 St.—saint  
 UK—United Kingdom  
 UN—United Nations  
 US—United States  
 USSR—Union of Soviet Socialist Republics  
 w—west

A fiscal split year is indicated by a stroke (e.g. 1998/99). For acronyms of UN agencies and their intergovernmental organizations, as well as other abbreviations used in text, see the United Nations volume.

A dollar sign (\$) stands for us\$ unless otherwise indicated. Note that 1 billion = 1,000 million = 10<sup>9</sup>.



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# ALBANIA

Republic of Albania

*Republika e Shqipërisë*

**CAPITAL:** Tiranë

**FLAG:** The flag consists of a red background at the center of which is a black double-headed eagle.

**ANTHEM:** *Hymni i Flamurit (Anthem of the Flag)* begins “Rreth flamurit të për bashkuar” (“The flag that united us in the struggle”).

**MONETARY UNIT:** The lek (L) of 100 qindarka is a convertible paper currency. There are coins of 5, 10, 20, 50 qindarka, and 1 lek, and notes of 1, 3, 5, 10, 25, 50, 100, and 500 leks. L1 = \$0.0079 (or \$1 = L126.53) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year’s Day, 1 January; Small Bayram, end of Ramadan, 16 December 2001\*; International Women’s Day, 8 March; Catholic Easter, April\*\*; Orthodox Easter, April\*\*; Great Bayram, Feast of the Sacrifice, 6 March 2001\*; Independence Day, 28 November; Christmas Day, 25 December.

\*Dependent on the Islamic lunar calendar and will vary from the dates given.

\*\* Dependent on religious calendar, and also will vary.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Albania is situated on the west coast of the Balkan Peninsula opposite the “heel” of the Italian “boot,” from which it is separated on the SW and W by the Strait of Otranto and the Adriatic Sea. It is bordered on the N and E by Serbia and Montenegro and Macedonia, and on the SE by Greece, with a total boundary length of 720 km (447 mi). Comparatively, Albania is slightly smaller than the state of Maryland, with a total area of 28,748 sq km (11,100 sq mi) and extends 340 km (211 mi) N-S and 148 km (92 mi) E-W. Albania’s capital city, Tiranë, is located in the west central part of the country.

## <sup>2</sup>TOPOGRAPHY

Albania is predominantly mountainous, with 70% of the territory at elevations of more than 300 m (1,000 ft). The rest of the country consists of a coastal lowland and the lower reaches of river valleys opening onto the coastal plain. The Albanian mountains, representing a southern continuation of the Dinaric system, rise abruptly from the plains and are especially rugged along the country’s borders. The highest peak, Mt. Korabit (2,751 m/9,026 ft) lies in eastern Albania on the Macedonian border. The most important rivers—the Drin, the Buna, the Mat, the Shkumbin, the Seman, and the Vjosë—empty into the Adriatic. Albania shares Lake Scutari (*Skadarsko Jezero*) with Serbia and Montenegro, Lake Ohrid (*Ohridsko Jezero*) with Macedonia, and Lake Prespë (*Prespansko Jezero*) with Macedonia and Greece.

## <sup>3</sup>CLIMATE

Albania has a variety of climatic conditions, being situated in the transition zone between the typical Mediterranean climate in the west and the moderate continental in the east. The average annual temperature is 15°C (59°F). Rainy winters (with frequent cyclones) and dry, hot summers are typical of the coastal plain. Summer rainfall is more frequent and winters colder in the mountainous interior. Annual precipitation ranges from about

100 cm (40 in) on the coast to more than 250 cm (100 in) in the mountains.

## <sup>4</sup>FLORA AND FAUNA

The mountainous topography produces a zonation of flora and fauna. The dry lowlands are occupied by a bush-shrub association known as maquis, in which hairy, leathery leaves reduce transpiration to a minimum. There are some woods in the low-lying regions, but larger forests of oak, beech, and other deciduous species begin at 910 m (2,986 ft). Black pines and other conifers are found at higher elevations in the northern part of the country. There are few wild animals, even in the mountains, but wild birds still abound in the lowland forests.

## <sup>5</sup>ENVIRONMENT

Deforestation remains Albania’s principal environmental problem, despite government afforestation programs. Forest and woodland account for 38% of the country’s land use. Soil erosion is also a cause for concern, as is pollution of the water by industrial and domestic effluents. While Albania has a comparatively small amount of renewable water resources at 26.7 cu km, 99% of its urban population and 95% of its rural population have access to pure water.

Albania produced 1,942 million metric tons of carbon dioxide emissions from industrial sources in 1996.

A total of 2.9% of Albania’s lands amounting to 84 ha is protected by environmental laws. As of 2001, 17 of the 3,000-plus plant species in Albania were endangered. Two mammal species and seven bird species were also threatened. Endangered species include the Atlantic sturgeon, Mediterranean monk seal, and the hawksbill turtle.

## <sup>6</sup>POPULATION

The population of Albania in 2003 was estimated by the United Nations at 3,166,000, which placed it as number 128 in population among the 193 nations of the world. In that year



approximately 6% of the population was over 65 years of age, with another 32% of the population under 15 years of age. There were 104 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.68%, with the projected population for the year 2015 at 3,440,000. The population density in 2002 was 109 per sq km (282 per sq mi).

It was estimated by the Population Reference Bureau that 42% of the population lived in urban areas in 2001. The capital city, Tiranë, had a population of 279,000 in that year. Other important towns include Durrës, 72,400; Shkodër, 71,200; Elbasan, 69,900; and Vlorë, 61,100. According to the United Nations, the urban population growth rate for 2000–2005 was 2.0%.

The population increase in Albania has been exceptionally rapid by European standards. The birthrate, despite a decline from over 40 births per 1,000 of population in the 1950s to 19 in 2000, remains among the highest in Europe. The high birthrate is partially attributed to the ban on birth control during the communist era. Another contributing factor to the population growth is the increase in life expectancy to an average of 74 years of age.

## 7 MIGRATION

In the 19th century, Albanians emigrated to other Balkan countries (Romania, Bulgaria, Turkey, Greece), and to Egypt and Russia. During the first decades of the 20th century, emigration—for economic reasons—was primarily to the US (largely to Massachusetts), Argentina, Australia, and France. Emigration following World War II has occurred on a very limited scale, mainly for political reasons. Between 1945 and 1990, Albania has remained virtually isolated from the rest of Europe. In the early 1990s, about 2 million Albanians lived in Serbia and Montenegro (formerly Yugoslavia). Many ethnic Albanians live in Greece, Italy, and Macedonia.

By the beginning of June 1997, rebel factions controlled most southern towns in the country. In 1997, there was an Italian-led multinational force of 6,000 foreign peacekeeping troops ready to aid in preventing thousands of Albanians from fleeing into Greece or Italy. As of 2001, Albania had a net migration rate of -19 migrants per 1,000 population. This amounted to a loss of 60,000 people. The government continues to view the migration levels as satisfactory.

During the NATO air strikes in the spring of 1999, Albania hosted 465,000 refugees from Kosovo. Two-thirds were hosted by more than 29,000 families, aided by UNHCR; 20% lived in tented camps; and 13% stayed in collective centers. Adoption of the Kosovo Peace Plan on 10 June 1999 prompted the return of tens of thousands of refugees. Estimates suggest that some 432,500 refugees have returned to Kosovo from Albania. At the end of 2000, there were only about 500 refugees remaining in Albania.

Remittances from Albanians working abroad amounted to \$531 million in 2000, which was approximately 14.1% of GDP.

## 8 ETHNIC GROUPS

Generally regarded as descendants of the ancient Illyrians, the Albanians make up about 95% of the population. Ethnic Greeks comprise as much as 3% of the populace. Other groups, including Gypsies, Vlachs, Bulgarians, and Serbs, make up the remaining 2%. The Albanians themselves fall into two major groups: the Ghegs in the north and the Tosks in the south, divided by the Shkumbin River.

## 9 LANGUAGES

Albanian (Shqip), an independent member of the Indo-European family of languages derived from both ancient Illyrian and ancient Thracian, has been greatly modified by Latin, Slavonic,

Greek, and Turkish influences. It was not until 1908 that a common Latin alphabet was established for Albanian. In addition to letters of the English alphabet, Albanian uses the diacritics ç (representing the sound of *ch* in *church*) and ë (the sound of *i* in *dirt*). Other unusual letter values are *c* (the sound of *ts* in *gets*), *x* (the sound of *ds* in *woods*), *xb* (the sound of *j* in *jaw*), *j* (the sound of *y* in *yet*), *q* (the sound of *ky* in *stockyard*), and *y* (the sound of the German *ü*). There are two distinct dialects—Gheg, spoken in the north, and Tosk, spoken in the south. During the period between World Wars I and II, Gheg was officially favored as standard Albanian; after World War II, because the principal leaders of the regime were southerners, Tosk became the standard. Greek is spoken by a minority in the southeast border area.

## 10 RELIGIONS

Historically, Islam has been the majority religion of Albania, despite Communist efforts to enforce an atheistic, secular state. In 1967, the government closed more than 2,100 mosques, churches, monasteries, and other places of worship and declared the country an atheist state. Subsequent complaints in the official press about the survival of religious customs (refusal to eat pork on the part of Muslims, failure to work at Easter on the part of Christians) suggest that the official abolition of public religion had by no means ended private observance. In 1990 and 1991, official opposition to religious activities came to an end, and churches and mosques were selectively allowed to reopen. Albania is now a self-proclaimed secular state that allows freedom of religion. In the total population, the percentage of Muslims remains stable at roughly 65% to 70%, including Sunni Islam and members of the Bektashi school (Shi'a Sufism). Since 1925, Albania has been considered the world center of the Bektashi school. About 20% of the population are members of the Orthodox Autocephalous Church of Albania (Albanian Orthodox) and about 10% are Roman Catholic. There are a few small Protestant groups.

Geographically, most Muslims are found in the center of the country, with a few groups to the south. Citizens in the south are mainly Orthodox while northerners are generally Catholic. The Greek minority in the south is Orthodox.

The 1998 constitution calls for freedom of religion; however, the four main groups of Sunnis, Bektashis, Orthodox, and Catholics have maintained a heightened degree of social recognition and status due to their historical presence within the country.

## 11 TRANSPORTATION

Many roads are unsuitable for motor transport; bicycles and donkeys are common. There had been virtually no private cars in the country, but they have become more common since the opening of the borders. In 2001, there were 18,000 km (11,185 mi) of roads, of which 5,400 km (3,356 mi) were paved. One of the many recent infrastructural projects was the construction of a 241 km (150 mi) four-lane highway linking Durrës with Greece, via Pogradec and Kapshtica.

Railroad construction began in 1947, and lines in 2001 had a total length of 447 km (228 mi) of standard gauge track. Narrow gauge rail includes the Durrës-Tiranë, Durrës-Elbasan, Ballsh Rrogozhinë, Vorë-Shkodër, and Selenicë-Vlorë lines. In 1979, Albania signed an agreement with the former Yugoslavia to construct a rail link between Shkodër and Titograd; the link was opened to international freight traffic in September 1986.

Albania's rivers are not navigable, but there is some local shipping on lakes Shkodër, Ohrid, and Prespë. Coastwise vessels link the ports of Durrës, Vlorë, Sarandë, and Shëngjin. Durrës is the principal port for foreign trade. The merchant fleet of Albania in 2001 consisted of 7 vessels of 1,000 GRT or over, all cargo

ships, totaling about 13,423 GRT. A freight ferry service between Durrës and Trieste was inaugurated in 1983.

In 2001, there were eleven airports, three of which had paved runways. Flights from Tiranë's international airport connect the Albanian capital with Athens, Belgrade, and Switzerland (the latter route opened in June 1986). In 2001, 146,300 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

### Origins and the Middle Ages

The Albanians are considered descendants of ancient Illyrian or Thracian tribes of Indo-European origin that may have come to the Balkan Peninsula even before the Greeks. Although several Greek colonies were established along the coast, the hinterland remained independent. An Illyrian kingdom was formed in the 3rd century BC, and even after it was conquered by Rome in 167 BC, some mountain tribes were never subdued. Among them were the Albani or Albanoi, whose city Albanopolis was mentioned in the 2nd century BC by Ptolemy in his *Geography*. Later, while nominally under Byzantine rule, Albania was raided by Slav invaders in the 6th century and was annexed to Bulgaria in the 9th century. Temporary inroads were made by Venice, which established coastal colonies, and by the Normans, who seized Durrës in 1082–85. Albanian expansion took place under the Angevin kings of Naples in the 13th century, and again under the Serbs in the 14th century. Short-lived independent principalities flourished during the second half of the 14th century.

### From the Ottomans to Independence

Turkish advances, which began in 1388, were resisted from 1443 to 1468 by Gjerj Kastrioti, better known as Scanderbeg, the Albanian national hero, but by 1479 the Turks attained complete control of the area. Over the succeeding centuries, Islam spread throughout most of the country. Turkish rule continued through the 19th century, which saw an intensification of nationalistic feeling, often erupting into open rebellion. In November 1912, during the First Balkan War, the National Assembly convened in Vlorë under the chairmanship of Ismail Kemal and proclaimed Albania's independence. The proclamation was supported by Austria-Hungary but opposed by Russia, Serbia, Greece, and Turkey. At a conference in London in 1913, Albania's national boundaries were established—they have remained virtually unchanged since that time—and the nation was placed under the tutelage of the great powers. Albania then became a principal battleground during World War I. By the time the war ended, portions of Albania were under Italian, French, and Yugoslav control.

Albania again asserted its independence in 1920, and a provisional government was established, as the Italians and French withdrew. Following a period of unstable parliamentary government (1921–24), Ahmet Zogu, the chief of the Mat district, seized power with Yugoslav support. He proclaimed Albania a republic in 1925, with himself as president, and a kingdom in 1928, with himself as King Zog I. A series of concessions to Italy made Albania a virtual Italian protectorate, and after Zog was forced into exile in April 1939, Italy occupied Albania, uniting it with the Italian crown. During World War II, Communist-led guerrillas under Enver Hoxha resisted Italian and German forces. The Congress of Permeti (24 May 1944) formed Albania's provisional government, naming Hoxha as premier; the congress banned the return of former King Zog, and called for a constituent assembly to meet after the complete liberation of the country. In November 1944, the Hoxha government was established in Tiranë.



LOCATION: 39°38' to 42°39' N; 19°16' to 21°4' E. BOUNDARY LENGTHS: Serbia and Montenegro, 287 kilometers (178 miles); Macedonia, 151 kilometers (94 miles); Greece, 282 kilometers (175 miles); coastline, 362 kilometers (225 miles). TERRITORIAL SEA LIMIT: 15 miles.

### Under Communist Rule

The constitution of 1946 declared Albania a people's republic. Early close relations with Yugoslavia were abruptly severed when the Soviet-Yugoslav break occurred in 1948. Partly because of fundamental differences with Yugoslavia, whose borders included about 1.7 million Albanians, and partly because of ideological divergences, Albanian-Soviet relations worsened at the 22nd

Communist Party Congress, and the USSR severed diplomatic relations with Albania in December 1961 and evacuated its naval and submarine bases at Vlorë.

Relations with Communist countries other than China worsened during the 1960s, as Albania ceased to participate in the activities of the Warsaw Treaty Organization by September 1968 following the Soviet invasion of Czechoslovakia. With Yugoslavia, however, there were signs of rapprochement; an Albanian-Yugoslav trade pact was signed in 1970, and trade between the two nations consequently flourished. Gestures were also made to improve relations with Albania's other neighbor, Greece.

Albania's relations with China, its ally and supporter since 1961, seemed to cool somewhat after 1971. China's détente with the United States ran counter to Albania's policy of opposition to the USSR and the United States. China's assistance to Albania ceased when the United States denounced the overthrow of China's "Gang of Four" in October of 1976.

On 28 December 1976, Albania adopted a new constitution that formally established Marxism-Leninism as the dominant ideology and proclaimed the principle of self-reliance. The following year, Albania broke off most of its links with China and accused it of "social imperialist" policies, and in 1978 trade relations were also suspended. In 1983, however, Albania received a Chinese delegation to discuss the resumption of trade relations. Meanwhile, relations with Yugoslavia worsened following the riots by ethnic Albanians in Yugoslavia's Kosovo province in March 1981; Yugoslavia charged that Albania had instigated the protests, and Albania accused Yugoslavia of ethnic discrimination. (Nevertheless, as of 1987 Yugoslavia was Albania's main trading partner, and Albania's first rail connection with the outside world, the Shköder-Titograd link, was opened in 1986.)

Internally, Albania seemed to be locked in bitter political conflict as the 1980s began. Prime Minister Mehmet Shehu, relieved of his defense portfolio in April 1980, died in December 1981, an alleged suicide. A year later, Hoxha charged that Shehu had been working for the US, Soviet, and Yugoslav secret services and that Shehu even had orders from Yugoslavia to kill him. Western and Yugoslav press accounts speculated that Shehu had favored an opening to the West and had been executed in the course of a power struggle. Throughout 1981–83, an extensive purge of those even remotely connected with Shehu was conducted. This was in keeping with previous purges in the 1950s of those sympathizing with Yugoslavia, in the 1960s of pro-Soviet officials, and in the late 1970s of pro-West and pro-China policymakers. On 25 September 1982, according to Albanian reports, a group of armed Albanian exiles landed on the coast and was promptly liquidated. Hoxha alleged that they had been sent by Yugoslavia.

Hoxha died on 11 April 1985 and was succeeded as first secretary of the Workers Party by Ramiz Alia, who had been chairman of the presidium of the People's Assembly since 1982.

In the mid-1980s, Albania took steps to end its isolation. In 1987, it established diplomatic relations with Canada, Spain, Bolivia, and the Federal Republic of Germany. In August 1987, Albania signed a treaty with Greece formally ending the state of war that had existed between the two countries since World War II.

### Democracy and a Free-Market Economy

As unrest spread in the late 1980s through Central and Eastern Europe in opposition to long-lasting Communist dictatorships, economic hardships in Albania grew ever deeper. Albania's political leadership had to open up more diplomatic and trade relationships with Western nations as the only available source of potential assistance. At the same time, internal unrest and a search for alternative democratic political solutions led by 1990 to mass protests and calls for the government's resignation.

Thousands of Albanians wanted to emigrate in spite of imposed restrictions and became refugees housed in foreign embassies waiting for ships to take them abroad, particularly to Italy. President Ramiz Alia initiated the process for reestablishing diplomatic relations with the United States, discontinued since the 1939 annexation of Albania by Italy. Restrictions on travel abroad were eased and religious practices allowed for the first time since their prohibition in 1944.

President Berisha and his Democratic Party pushed hard for radical reforms to create a market economy and democratic institutions internally, while bringing Albania back into the international mainstream after half a century of isolation. By the end of 1993 barriers to foreign trade had been removed, the Albanian lek made fully convertible, inflation brought under control, the serious productivity decrease halted, and an anti-corruption drive mounted. The privatization of the economy had been successfully initiated, particularly in the agricultural sector, with 90% of land distributed to private farmers. Most subsidies were ended except to large industrial enterprises, which still wait for foreign investments that are not yet coming to the unstable Balkan area. The Communist Party government still intended to maintain both its control and its socialist system while allowing for some democracy. But it was not to be, and by December 1990 the opposition Democratic Party was formed. On 7 February 1991, some 8,000 students went on strike in Tiranë demanding economic changes and the government's resignation. In the face of persistent unrest, President Alia scheduled multiparty elections for 31 March 1991. Even with the Communist Party still in control, the Democratic Party managed to win 75 of the 250 People's Assembly seats (mostly in urban areas) with 160 seats won by the Communist Party. Ramiz Alia was reelected president and a still all-Communist Council of Ministers was appointed under Prime Minister Fatos Nano. By June 1991, continuous unrest forced Alia to agree to a first coalition government between its Communist (renamed Socialist) Party and the new Democratic Party. The latter withdrew from the coalition government in December 1991 charging the majority Socialists with preventing any reforms. President Alia then called for new general elections on 22 March 1992, which gave the Democratic Party a majority of seats (92 of 140). Sali Berisha was elected president with Aleksander Meksi his prime minister. Under Berisha, Alia and Nano were arrested and tried for corruption and abuse of power. They were sentenced to long prison terms, but were released within a few years of their convictions.

In foreign relations, Albania, under Berisha's leadership, tried to balance the internal pressure to assist both the repressed Albanian majority in the Kosovo region of Serbia towards its independence, and the sizable Albanian minority in Macedonia to obtain human and political rights. Albania's Western trade partners realized its internal economic and humanitarian needs and have been generous with their assistance that, between mid-1991 and 1993, has amounted to \$1 billion, mostly from European Union countries led by Italy. The United States and Albania also developed very close relations. Albania requested membership in NATO and, even though rejected, continued its cooperation with NATO. Because of its own border problems with Greece, Albania supported the independence of Macedonia and was one of the first nations to recognize Macedonia in spite of Greece's refusal to do so. Albania, a majority (70%) Moslem country, joined the Organization of the Islamic Conference mainly to gain some economic support. Albania also hosted Pope John Paul II's visit in April 1993, having established diplomatic relations with the Vatican in September 1991, and intensified its traditional good relationship with Italy, whose annexation of Albania in 1939 is by now only a faint memory.

In 1994, the border disputes that have occurred since the creation of Albania flared into violence as Greek and Albanian border guards fought against each other in sporadic clashes.

Greece expelled over 1,500 Albanians working in Greece without permits.

Albania's borders also became critical in 1994 as smugglers attempted to evade the embargo imposed on Serbia in consequence of its participation in the war in Bosnia. Fuel was shipped into Albania through the ports of Durrës and Vlorë and then taken by tanker truck inland where it was transported via Lake Shkodër into Montenegro and then into Serbia. Because the oil was legitimately imported into the country it was subjected to import duties, which provided in excess of \$22 million in tax-revenue for the Albanian government in 1994.

Domestically, Albania began to see the beginning fruits of its painful transition to a market economy as consumer goods and cafe-filled boulevards began to appear for the first time in postcommunist Albania. While wages remained low in comparison with other European countries, living standards were still higher than they had been under Hoxha's Stalinistic economics.

But Albania's efforts to integrate itself into modern Europe suffered a setback when a new constitution, strongly supported by President Sali Berisha, was rejected by voters in November 1994. It would have created a stronger executive and, as a prerequisite for entry into the Council of Europe, would have made Albania a signatory to international human rights treaties. Albania eventually did win acceptance to the Council of Europe in July 1995.

While Albania's parliamentary election in May 1996 returned President Berisha to power, the election was marred by reports of widespread electoral fraud committed by Berisha's Democratic Party and its allies. International observers in Albania to monitor the election confirmed these reports. While the United States and the Organization for Cooperation and Security in Europe expressed private concern over the election tampering, they did not publicly demand that new elections be held. For days after the election, police used truncheons and tear gas to disperse crowds protesting the election fraud and jailed major opposition leaders. In October of 1996 the Democratic Party again won a landslide victory in local elections, but the party was again charged by international observers and opposition parties with massive electoral fraud.

Perhaps the best indicator that the Democratic Party was not as popular as elections indicated came in response to the collapse of several "pyramid schemes" in late 1996 and early 1997, in which at least one-third of the population had invested approximately \$800 million by late 1996. Not only were these schemes a dubious investment value, but they had retarded the development of the legitimate Albanian economy by draining money away from legitimate investments, as even banks offering 16% annual interest had trouble attracting new deposits.

Rightly or wrongly, most Albanians identified the government with the pyramid schemes. It was widely believed that the government had used funds provided by the schemes to finance its campaign and that government ministers were involved with starting and running the schemes. The government's own belated actions in reaction to the pyramid schemes, freezing their assets and arresting fund managers, only further infuriated investors because it reduced the already slim chances of seeing a return of any of their capital.

Anger over the collapse of the funds initiated the violence that followed throughout the winter and spring, releasing pent-up frustration that quickly spun out of government control and into anarchy. Protests in Tiranë in January 1997 calling for the resignation of the government were peaceful, but in provincial areas Albanians began destroying anything associated with the government and the Democratic Party, including courthouses, police stations, municipal buildings, and property belonging to state-owned industries. Violence was particularly serious in the southern port city of Vlorë, home to many of Albania's smugglers

and drug operators who invested heavily in the schemes. Government officials and soldiers were expelled from most of southern Albania, as citizens (mostly gangsters and smugglers armed with weapons from government stockpiles and even with MIG aircraft from a captured military base) took control of the area.

The government attempted to stop the protests by cracking down on opposition groups and protesters. Curfews were imposed, as well as restrictions on the right of assembly and the press. Major opposition leaders were secretly arrested and imprisoned and the offices of the nation's major opposition newspaper were torched by plain-clothes security officers. A military force dispatched to return the south to government control was unable to dislodge the rebel hold on Vlorë.

At the appearance of government impotence in the south, order broke down throughout Albania, and the looting went completely beyond control. Not only were food and goods looted from government and industrial facilities (as well as weapons from government armories), but university libraries and cherished cultural monuments were destroyed by rampaging crowds.

President Berisha eventually accepted the creation of a coalition government with the aim of restoring order and ending the widespread prevailing anarchy. At Berisha's request a "voluntary militia" was created, and Tiranë returned to government control. However, it soon became apparent that the militia was composed mostly of members of the secret police (which Berisha had promised to dissolve) and Berisha loyalists, creating great mistrust among the opposition members of his cabinet.

As the violence came closer to the Albanian capital, there were calls for an international peacekeeping force to restore order. In April, a 6,000-member peacekeeping force led by French and Italian troops was deployed to patrol the countryside and restore order so the country could hold new elections. While the deployment of these troops put an end to the violence that had rocked Albania for over three months and had cost almost 150 lives, the massive looting and destruction left the country in tatters, and the pillaging of government armories meant that nearly every household had an automatic machine gun.

The identification of the Democrats with the corruption of the pyramid schemes hurt them badly in the July 1997 election, and the Socialist Party and its allies won an overwhelming victory. Nano, who had regained control of the Socialist Party after his release from prison, became prime minister. President Berisha resigned, and the Assembly elected Rexhep Mejdani, of the Democratic Party, as his successor. In November 1998, many of the principles embodied in the country's 1991 interim constitution were given permanent status when a new, Western-style constitution defining Albania as a democratic republic was approved in a nationwide referendum.

Albania was thrust into the international spotlight by the Kosovo crisis in the spring of 1999 as approximately 440,000 Kosovar Albanian refugees fled over the border to escape persecution at the hands of the Serbs after NATO began launching airstrikes against Yugoslav military targets in March. Albania served as an outpost for NATO troops. The influx of refugees further strained Albania's weak economy, and millions of dollars' worth of aid was pledged by the World Bank, the European Union, and other sources. By the fall, most of the refugees had returned to their homes, but Albania's struggle with poverty, crime, and corruption continued.

In October 1999, Socialist Prime Minister Pandeli Majko, appointed a year earlier, was ousted after losing favor with senior party leaders; he was replaced by another young, Western-leaning politician, Ilir Meta. Meta immediately moved to modernize the economy, privatize business, fight crime, and reform the judiciary and tax systems. In January 2001, Albania and Yugoslavia re-

established diplomatic relations that had been severed during the Kosovo crisis.

Fighting between ethnic Macedonians and ethnic Albanian rebels—largely from the former Kosovo Liberation Army (UCK)—in the northwest region of Macedonia around the town of Tetovo intensified in March 2001 (it had begun in 2000). Fears in Macedonia of the creation of a “Greater Albania,” including Kosovo and parts of Macedonia, were fueled by the separatist movement. On 13 August, the Ohrid Framework Agreement was signed by the Macedonian government and ethnic Albanian representatives, granting greater recognition of ethnic Albanian rights in exchange for the rebels’ pledge to turn over weapons to the NATO peacekeeping force.

General elections were held in June 2001 and were won by the Socialist Party once again, taking over half of the 140 parliamentary seats. In the elections, the Union for Victory, a coalition of 5 political parties, came in second. As of September, a coalition government was in place. Meta listed European integration and an end to energy shortages as his priorities. But by December, the Socialist Party was plagued by a rift between Meta and party chairman Nano, after Nano accused Meta’s government of corruption and incompetence and demanded that the cabinet be restructured. On 29 January 2002, Meta resigned after failing to resolve the split in the party. Pandeli Majko became the country’s new prime minister, but feuding in the Socialist party leadership continued. In June, parliament elected former Defense Minister Alfred Moisiu as president, replacing Mejdani. His election came after days of political infighting, during which Nano and Berisha were barred from running. In the end, both Nano and Berisha backed Moisiu as the sole consensus candidate for the position. And in August, Nano became prime minister for the fourth time after the Socialist Party decided to merge the roles of prime minister and party chairman.

In November 2002, NATO announced that of 10 countries aspiring to join the organization, 7 would accede in 2004, leaving Albania, Macedonia, and Croatia to wait until a later round of expansion. In January 2003, Albania and Macedonia agreed to intensify bilateral cooperation, especially in the economic sphere, so as to prepare their way to NATO and EU membership. Also that month, the EU and Albania began Stabilization and Association Agreement talks, seen as the first step toward EU membership.

### **13 GOVERNMENT**

Under the 1976 constitution, Albania was a socialist republic. Legislative authority was vested in the unicameral People’s Assembly, elected every four years from a single list of candidates. In elections held 2 February 1987, 250 deputies were elected by 1,830,653 voters, with no votes cast against and one vote invalid. Voter participation was allegedly 100%. Suffrage was extended to men and women from the age of 18 and was compulsory. The 1976 constitution specified that “the rights of citizens are indivisible from the fulfillment of their duties and cannot be exercised in opposition to the socialist order.”

Through most of the 1990s, Albania’s government was based on the 29 April 1991 Law on Constitutional Provisions that established the principle of separation of powers, the protection of private property and human rights, a multi-party parliament, and a president of the republic with broad powers. After defeating a proposed constitutional measure in 1994, Albanian voters approved a new constitution in November 1998 giving the Albanian government a shape more like those of Western nations. Many provisions of the 1991 interim constitution were made permanent in the new document, which guaranteed a number of basic rights, including religious freedom, property rights, and human rights for ethnic minorities. After being cut to 140 members in 1992, the unicameral People’s Assembly was expanded to 155 in 1997; it was subsequently reduced to 140

once again. Of these members, 100 are directly elected and 40 are elected by proportional representation. The president is elected by the People’s Assembly for a five-year term, and the prime minister is appointed by the president. A Council of Ministers is nominated by the prime minister and approved by the president.

Alfred Spiro Moisiu, of the Socialist party, was elected to a five-year term as president by the People’s Assembly in June 2002. Prime Minister Fatos Nano (Socialist) has been in office since July 2002.

### **14 POLITICAL PARTIES**

Before the 1990s, the only political party was the Communist Party, which was founded in 1941 and has been known officially as the Workers Party (Partija e Punës) since 1948. As of November 1986, it had about 147,000 members, as compared with 45,382 in 1948. The Albanian Democratic Front was the party’s major subsidiary organization; other subsidiary groups included the Union of Albanian Working Youth and the Women’s Union of Albania.

Under the 1976 constitution, the first secretary of the Workers Party was commander-in-chief of the armed forces. The constitution described the Workers Party as the “sole directing political power in state and society.”

The primary political parties include the Democrats (led by Sali Berisha), a Western-style conservative party; the Democratic Alliance, a breakaway group of Democrats still largely allied with them; the Socialists (led by Fatos Nano), composed largely of former Communist Party members; and the Social Democrats, a Western-style progressive party largely allied with the socialists.

Although in the early years of post-Communist Albania there were genuine ideological differences between the parties, such distinctions have now blurred. Even the Socialist Party, composed largely of former Communists, has called for budget cuts and an IMF-backed austerity program. As of the election of 24 June 2001, seats in the unicameral National Assembly were distributed as follows: Socialist Party of Albania (PSS), 73; the Democratic Party-led Union for Victory, 46 (alliance composed of the Democratic Party of Albania, the Movement of Legality Party, the Party of the Albanian National Front, the Republican Party of Albania, and the Liberal Democratic Union); Democratic Party, 6; Social Democratic Party of Albania, 4; Union for Human Rights, 3; Party of the Democratic Alliance of Albania, 3; Albanian-Agrarian Party, 3; and independents, 2.

### **15 LOCAL GOVERNMENT**

Albania is divided into 12 regions (qarqe), 36 districts (rrethe), including the city of Tiranë, 65 cities and towns, and 309 communes (as of 2002). All subdivisions are governed by people’s councils. The councils direct economic, social, cultural, and administrative activity in their jurisdictional areas and appoint executive committees to administer day-to-day activities.

International observers deemed local elections held in 2000 to have achieved a certain level of democracy, but identified irregularities that need to be addressed in reforms in the Albanian electoral code.

### **16 JUDICIAL SYSTEM**

The judicial system includes district courts, six courts of appeal and a supreme court, or Court of Cassation. The district courts are trial level courts from which appeal can be taken to the court of appeals and then to the Court of Cassation. At each of the three levels, the courts are divided into civil, criminal and military chambers. Justices of the Supreme Court serve for 7 years.

There is also a Constitutional Court (also known as the High Court) with jurisdiction to resolve questions of constitutional interpretation that arise during the course of any case on appeal. In a 1993 decision, the Constitutional Court invalidated a law that would have disbarred lawyers who were active during the

communist era, and ordered the lawyers reinstated. Justices of the Constitutional Court serve a maximum of 9 years.

Parliament appoints the seven members of the Court of Cassation and five of the nine judges on the Constitutional Court, with the rest appointed by the president. A Supreme Judicial Council appoints all other judges. In 1992, the Supreme Judicial Council began to remove judges who had served under the former Communist regime.

Although the constitution provides for an independent judiciary, the system is plagued by a lack of resources and trained staff, and is subject to political pressure, intimidation, and corruption.

## 17 ARMED FORCES

As of 2002, the Albanian armed forces were in the midst of a major restructuring to be completed by 2010. The new army was to consist of 5 divisions and a commando brigade of 3 battalions. Army personnel numbered 20,000 armed with 400 main battle tanks and 35 light tanks. The navy had 2,500 personnel and was equipped with 11 torpedo craft and 9 patrol craft; the air force totaled 4,500 and had 98 combat aircraft. Defense spending in 2002 totaled \$56.5 million or 1.5% of GDP.

## 18 INTERNATIONAL COOPERATION

Albania, a UN member since 14 December 1955, belongs to numerous specialized agencies, including ECE, FAO, IAEA, IFAD, ILO, IMO, ITU, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, WMO, and the WTO. Albania was originally also a member of the CMEA and the Warsaw Pact, but in 1968 it formally announced its withdrawal from both (it had ended participation in CMEA in 1961). In November 2002, NATO announced that Albania would have to wait until a later round of expansion to join. As of 2003, Albania had applied for membership in the EU, although it was not among the 13 candidate countries from eastern and southern Europe being considered for the next round of accession. However, in January 2003, Albania and the EU began Stabilization and Association Agreement talks, which were regarded as the possible first steps toward EU membership. Albania was the only European country that declined to participate in the Helsinki Conference on Security and Cooperation in Europe in 1974–75. The constitution of 1976 reasserted the principle of self-reliance. In 1986 and 1987, Albania began to abandon its strict isolationism and established contacts and diplomatic relations with numerous countries.

## 19 ECONOMY

Albania has always been an underdeveloped country. Before World War II, there were only a few small-scale industrial plants and only a few of the larger towns had electricity. Subsoil resources were potentially rich, but only coal, bitumen and oil were extracted—by Italian companies. Transportation was poorly developed. Stockbreeding contributed about half of the agricultural output; by 1938, tilled area represented only 23% of the agricultural land. Forests were exploited and reforestation neglected.

After the war, the Communist regime pursued an industrialization program with a centrally planned economy. Development projects received priority, especially mining, industry, power, and transportation. Consumer goods, agriculture, livestock, and housing were relatively neglected. By 1950, Albania had its first standard-gauge railways, a textile combine, a hydroelectric power plant, a tobacco fermentation plant, and a sugar refinery. Mineral extraction, especially of oil, chrome ore (the main export product) and iron-nickel, was increased. Land cultivated under crops or orchards expanded by over 70% from the 1950s to the 1980s. Although collectivized, farmland was again privatized in 1992 and distributed to

peasants. But despite significant progress, living standards in Albania were still among the lowest in Europe. When central planning was abandoned, there was no mechanism to take its place, and GDP fell 45% during 1990–92. It rose by at least 5% in 1995, however. After prices were freed, the inflation rate shot up to 226% in 1992, but dropped to 86% in 1993. Consumer prices and unemployment mounted rapidly in 1994.

More trouble followed in 1997 with the countrywide collapse of financial pyramid schemes. The resulting chaos left the government paralyzed, and over 1,500 Albanians died in the ensuing violence that swept the country before an international peacekeeping force restored order. More economic hardship struck Albania in 1999 as the country received 450,000 Kosovar refugees. Western aid helped the Albanians manage the influx.

As Albania entered the 21st century, its economy had begun to improve. Inflation remained low, the economy was expanding at a rate of approximately 7% a year, and foreign direct investment was growing. Economic growth came largely from the transportation, service, and construction sectors. The state was privatizing industries, and as of 2002, nearly all land in Albania was privately owned. However, the country's transition to a free-market economy did not come without difficulties. Unemployment remained high, and the economy remained based on agriculture (around 50%). Crime and corruption were problems, as were governmental bureaucratic hurdles that hamper business activity. The country's infrastructure was still outmoded and in disrepair, and in dire need of funding. Severe energy shortages caused blackouts and were responsible for small businesses failing; in 2003, the country was increasing its imports of electricity.

In 2001, Albania joined Bosnia and Herzegovina, Bulgaria, Croatia, the former Yugoslav Republic of Macedonia, Romania, and Serbia and Montenegro (Yugoslavia) in creating a Balkan free trade zone. Tariffs on selected goods were to be eliminated under the agreement. In September 2000, Albania joined the World Trade Organization, signaling its commitment to the process of economic reform.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Albania's gross domestic product (GDP) was estimated at \$14 billion. The per capita GDP was estimated at \$4,500. The annual growth rate of GDP was estimated at 5%. The average inflation rate in 2002 was 6%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 49% of GDP, industry 27%, and services 24%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$531 million or about \$169 per capita and accounted for approximately 14.1% of GDP. Worker remittances in 2001 totaled \$614.9 million. Foreign aid receipts amounted to about \$85 per capita and accounted for approximately 6% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$989. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 5%. Approximately 62% of household consumption was spent on food, 13% on fuel, 3% on health care, and 10% on education. It was estimated that in 2001 about 30% of the population had incomes below the poverty line.

## 21 LABOR

The labor force numbered approximately 1.3 million in 2000. The economically active population was equally divided between agricultural workers and those in industry and services. When communism was abandoned in favor of a free-market economy in 1991, a transitional dislocation of workers and resources took place, resulting in an estimated unemployment rate of 40% in 1992. In 2001, the unemployment rate remained high, up to an estimated 30%.

In 1991, workers were granted the legal right to create independent trade unions. The Independent Confederation of Trade Unions of Albania (BSPSH) was formed as the umbrella organization for several smaller unions. The rival Confederation of Unions, closely tied to the Socialist party, operates mostly as a continuation of the state-sponsored federation of the Communist era. Approximately 175,000 workers are members of these confederations. All citizens have the right to organize and bargain collectively, except the military and civilian employees of the military. As of 2002, unions generally negotiated directly with the government since all large enterprises were still state owned, and little privatization had occurred outside the retail and agricultural sectors; few private employees are unionized.

The minimum work age is 16, with restrictions placed on employment of those under 18 years old. Children between 14 and 16 years old may work part-time. The labor code sets the maximum workweek at 48 hours. Minimum wages were approximately \$50 per month in 2002, which does not provide a decent living wage for a family. Many urban area workers earn more, around \$100 per month. The labor code also sets out occupational health and safety standards but provides no remedies for workers who leave the workplace because of hazardous conditions. The enforcement of the labor code is severely limited by the Albanian government's lack of funding.

## 22 AGRICULTURE

In 1999, about 49% of the economically active population was engaged in agriculture, compared with 85% before World War II (1939–45). Although Albania's mountainous terrain limits the amount of land available for agriculture, the cultivated and arable area was about 26% of the total (700,000 hectares/1,730,000 acres) in 1994. Albania claims to be 95% self-sufficient in food. Nearly two thirds of the population is rural, and agriculture provided 50% of GDP in 2001.

The first collective farm was created in 1946, but collectivization did not move forward on a large scale until 1955. By early 1962, 1,263 collectives included about 2,000 villages and covered almost 80% of the cultivated area. Consolidation reduced the collectives to 1,064 by December 1964. State farms, meanwhile, had expanded and by 1960 they accounted for about 12% of the cultivated area. By 1964, only 10% of the cultivated area was privately farmed, and by 1973, 100% of the agricultural land was reported as socialized, either in collective or state farms. Collective farm consolidations and mergers reduced their number to 420 in April 1983, including "advanced type" cooperatives. The cooperatives accounted for 74% of total agricultural production. By the mid-1980s, the number of collective farmers was about 800,000.

After the government abandoned central planning, the economy collapsed from the void. The decline saw the agricultural sector shrink by 21% in 1991, but agricultural production rebounded in 1992 in response to the privatization of cooperative farms and the elimination of fixed pricing. The number of tractors increased from 359 in 1950 to 4,500 in 1960 and to 12,500 in 1991; about 8,150 were in service in 1998. In 1998, irrigation systems covered 48% of the cropland. Artificial fertilizers supplied to farms rose from 8,000 tons of active

substance in 1960 to 99,900 tons in 1978. However, fertilizer use fell from 145 kg per hectare in 1983 to 13 kg per hectare in 2000.

Wheat is the principal crop; corn, oats, sorghum, and potatoes are also important. Greater emphasis is being placed on the production of cash crops—cotton, tobacco, rice, sugar beets, vegetables, sunflowers, and fruits and nuts. FAO estimates of crop output in 1998 (in tons) included wheat, 272,000; corn, 206,000; sugar beets, 40,000; vegetables and melons, 640,000; potatoes, 162,000; grapes, 70,000; oats, 13,000; and sorghum, 14,000.

## 23 ANIMAL HUSBANDRY

The major problem of Albanian animal husbandry has been a shortage of fodder. As a result, livestock numbers remained virtually constant or increased very slowly in the postwar decades. When central planning was abandoned, uncertain monetary and credit policies caused inflation to soar, which eroded export earnings. Albania, which had been a net exporter of food products, became heavily dependent on food aid. Sheep, originally the most important livestock, numbered 1.84 million in 1946 and 1.94 million in 1999. The estimated numbers of livestock for 1999 was sheep, 1.94 million; poultry, 4 million; goats, 1.12 million; cattle, 720,000; hogs, 81,000; and horses, 65,000. Estimates of livestock products in 1999 include 761,000 tons of cows' milk, 73,000 tons of sheep's milk, 73,000 tons of goats' milk, 34,000 tons of beef and veal, 5,000 tons of pork, 12,000 tons of mutton and lamb, and 20,000 tons of eggs.

## 24 FISHING

Fishing is an important occupation along the Adriatic coast. In 1958, a development program for inland fisheries was begun, and the results were improved exploitation and conservation as well as increased fish reserves and catches. Annual fish production was estimated at 3,320 tons in 2000 of which 995 tons came from marine fishing. Exports of fish products amounted to almost \$5.4 million in 2000.

## 25 FORESTRY

Forests cover 1,046,000 hectares (2,585,000 acres), or about 38% of the total land area. As a result of exploitation, erosion, and neglect, about 70% of the forested area consists of little more than shoots and wild shrubs, and exploitation of the remaining accessible forests exceeds optimum annual limits. Roundwood production in 2000 totaled 443,000 cu m, with about 73% used for firewood. Between 1971 and 1978, 65,310 hectares (161,380 acres) were forested, compared with a total of 61,900 hectares (153,000 acres) for 1961–70.

## 26 MINING

After the abandonment of central planning in 1992, Albania's mineral industry was marginal, with technical difficulties contributing to the decline. Nearly half a century of self-imposed isolation during the Communist era crippled the industry with a shortage of capital, aging and inadequate machinery, overstaffing, and environmental damage. In 1995, the government adopted a law to privatize the mineral industry, and administrative preparations for privatization began in 1996.

Mineral deposits traditionally associated with Albania included chromite, copper ore, and nickeliferous iron ore. From the late 1970s through 1990, Albania was the principal chromite-producing country in Europe; the country often ranked second in the world in exports and third in production. In this period, exports of chromite, ferrochromium, and petroleum refinery products constituted the country's chief sources of foreign exchange. For much of the 1990s, the chromite mining and processing industry paralleled the country's moribund economy.

In 2000, chromite production was 80,000 tons, down from 300,000 in 1996. The most important chromite mines were at

Katjel, Mëmlisht, and Bulqize, in the upper reaches of the Drin River. A chromium-ore enrichment plant was put into operation at Bulqize in 1972. In the 1980s, chromite production amounted to more than 1 million tons per year.

In 2000, the government awarded Hayri Ogelman Madencilik, of Turkey, a long-term concession to upgrade and operate the Kalimash mining and beneficiation complex, and to develop mines at the Perollajt and Vllahane deposits in the northeastern part of the country.

Copper ore concentrate production was 9,000 tons in 2000, 2,294 in 1998, 869 tons in 1997, and 10,807 in 1996. Copper was mined at Pukë and Rrubig, where the ore was concentrated and smelted. The deposits near Kukës were the richest in Albania.

Production of bauxite in 2000 was 5,000 tons. Bauxite deposits were found mostly in central Albania, east of Tiranë, as well as in the northern alpine region, near the border with Serbia. Bauxite reserves were estimated at 12 million tons, with the largest deposit at Daijti. Because of a lack of domestic refining capacity, bauxite was exported.

Albania was one of the few countries producing natural asphalt, mined at Selenicë; production in 2000 was 17,000 tons.

A major event in 2000 was the privatization and sale of the Fushe-Kruje cement plant to a UK-Lebanese consortium. The capacity of the plant, 150,000 tons per year, would be increased, to meet 45% of domestic needs. Recent cement output has not exceeded the 243,000 tons produced in 1995, and imports have ranged from 500,000 to 600,000 tons per year.

## 27 ENERGY AND POWER

Albania has both thermal and hydroelectric power stations to generate electricity, but the latter are more significant and have the greater potential. Total power production increased from 85 million kWh in 1955 to 578 million kWh in 1967, and to 4.9 billion kWh in 1985. In 2000, net electricity generation was 4.7 billion kWh, of which 3% came from fossil fuels, 97% from hydropower, and none from other sources. In the same year, consumption of electricity totaled 5.4 billion kWh. Total installed capacity at the beginning of 2001 was 1.7 million kW, more than double the amount in 1990. Rural electrification was achieved in 1970.

The 24,000-kW Shkopet plant and the 27,000-kW Bistricë plant became operational in 1962. A 100,000 kW thermal plant at Fier went into operation in 1968, and the Mao Zedong hydroelectric plant was completed in 1971. The "Light of the Party" hydroelectric plant on the Drin River, with a total installed capacity of 500,000 kW, began operations in 1978. The seventh five-year plan (1981–85) provided for construction of a hydropower station at Koman, also on the Drin, with a capacity of 600,000 kW; the first two turbines were installed there by early 1986.

Petroleum production has become significant. Crude oil output rose from 108,000 tons in 1938 to 870,000 tons in 1967, and 3.5 million tons in 1985. In 1998, production totaled 6,000 barrels per day. Oil refineries are located at Ballsh, Stalin, Fier, and Çerrik. In 1995, Albania also produced 100 million cu m (3.53 billion cu ft) of natural gas. Sizable coal deposits were discovered near Tiranë in 1969.

## 28 INDUSTRY

Before World War II, industry was confined to a cement plant at Shkodër and to small-scale flour-milling, food-processing, cigarette-making, and fellmongery. In 1937–39, industry's contribution to the GNP was only 10%, by far the lowest in Eastern Europe. There was virtually no export of industrial products. After the war, the government emphasized industrial development, primarily development projects. Gross industrial output increased annually by 20% during 1951–60, by 12% during 1961–70, by 9% during 1971–80, by 5% during 1981–

85, and by 3% during 1986–90. The socialized sector accounted for over 95% of gross output by the late 1950s and 100% by the 1970s. The industrial labor force, which virtually tripled between 1946 and 1960, continued to increase rapidly during the 1960s and, in 1994, 15% of all wage and salary earners were employed in industry (including mining).

Industrial production fell 44% in 1992 and 10% in 1993, but by 1995 industrial productivity was growing at a rate of 6%. Privatization was proceeding slowly, with joint state-private ventures planned or sale of state enterprises at auction. In 1994, over one-half of the nonfarm workforce was employed by the state. As of 2002, the industrial sector accounted for 27% of GDP. Major industries include food processing, textiles and clothing, lumber, oil, cement, chemicals, and basic metals. Albania has two oil refineries, with a capacity of 26,000 barrels per day in 2002. In 2001, the government privatized a brewery, distillery, dairy, and pharmaceutical company, and planned to sell the Savings Bank of Albania and INSIG, the state-owned insurance company. The construction sector showed potential for growth in 2002–03, as the country had a housing deficit and existing housing is old and in poor condition.

## 29 SCIENCE AND TECHNOLOGY

The main scientific organization, the Academy of Sciences (founded in 1972 and located in Tiranë), has a scientific library and numerous attached research institutes dealing with various aspects of agriculture, fisheries, and veterinary science; medicine; natural sciences (biology, computer science and applied mathematics, energetics, nuclear physics, hydrometeorology, seismology, and geology) and technology (oil and gas geology and technology, industrial projects studies and design hydraulics, metallurgy, mining, roads and railways, chemistry mechanics, minerals, building technology); and the food industry. The Geologists' Association of Albania, founded in 1989, has 450 members (as of 1997).

The University of Tiranë, founded in 1957, has faculties in natural science, medicine, and mechanics and electronics. Its Natural Science Museum has exhibits relating to zoology, botany, and geology. Luigj Gurakugi University of Shkodër, founded in 1991 and based on the former Higher Pedagogical Institute founded in 1957, has a faculty in natural sciences. The Agricultural University of Tiranë, founded in 1971, has faculties in agronomy, veterinary science, and forestry. In 1987–97, science and engineering students accounted for 19% of college and university employment. The Fan S. Noli University in Korçë was founded in 1971 as the Higher Agricultural Institute and renamed in 1992. The Centre for Scientific and Technical Information and Documentation in Tiranë was founded in 1981.

## 30 DOMESTIC TRADE

Wholesale trade became a state monopoly in 1946. Initially, private retail trade played an important role, but by 1970 trade was fully socialized. By December 1990, retail units had been privatized again. All price controls were eliminated except on a few consumer items and monopoly-controlled products.

Shops in Albania are generally small, but department stores and a few larger supermarkets with limited stocks have been established in Tiranë, Durrës, Korçë, and other larger cities. Consumer cooperatives conduct trade in the rural areas. Albania has a small, but growing advertising sector.

Albanian business hours are Monday through Friday from 8 AM to 6 PM. Shop hours are Mondays and Tuesdays, 7 AM to 2 PM and 5 to 8 PM, and other weekdays, 7 AM to 2 PM. Many shops are open seven days a week, since there is no legislation regulating shop hours. Before 1 January 1959, all sales were for cash. Since then, date limited consumer credit was sanctioned, but most transactions are still in cash.



### 31 FOREIGN TRADE

Before World War II, about 50% of the exports consisted of the entire production of chrome ore and crude oil and some timber; the balance consisted of agricultural goods and fish. Good grains, sugar, and coffee made up about 20% of the imports; textiles, about 24%; and paper, machinery, chemicals, leather, metals, and oil products, about 53%. As the value of imports almost tripled that of exports, the deficit was met largely by Italian loans. Italy received two-thirds of Albanian exports and supplied Albania with up to half its imports. Under the Communist government, foreign trade became a state monopoly. The volume of turnover increased substantially and the structure and orientation changed radically.

As of the year 2000, Albania was running a trade deficit of \$814 million (US dollars), a considerable increase since the 1990s. The expansion in imports was largely due to increased domestic demand for foreign goods, as well as increased demand for electronics. Between 1950 and 1967, trade volume increased sixfold, to L1,043 million in 1967. Total trade volume (imports plus exports) rose 49% between 1966 and 1970. In 1960, trade with the socialist states accounted for about 90% of total trade; the Soviet share of this was half. Political and economic differences between Albania and the USSR resulted in suspension of aid to and trade with Albania. In 1961, 54% of total foreign trade was with the USSR and 7% with China; by 1964, trade with the former had ceased entirely, while trade with China had risen to 55%. After the Albanian-Chinese split in the late 1970s, economic contacts with China ceased. Talks aimed at renewing trade between the two nations were held in 1983, resulting in trade agreements worth about \$5–7 million.

In 2000, Albania exported leather products, apparel, footwear components, tobacco products, and metal ores. The production of chromium ore, formerly an integral part of the Albanian export schedule, has plummeted in recent years. Imports in 2000 included raw materials, machinery, transportation equipment, fuel, minerals, metals, and foodstuffs. Albania exported its goods primarily to Italy, Greece, and Germany. The chief sources of Albania's imports were Italy, Greece, Germany, Turkey, Bulgaria, and the Former Yugoslav Republic of Macedonia.

In 2000 Albania's imports were distributed among the following categories:

Consumer goods	18.4%
Food	19.2%
Fuels	8.9%
Industrial supplies	32.6%
Machinery	13.1%
Transportation	7.7%
Other	0.1%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Italy	185	384	-199
Greece	33	288	-255
Germany	17	66	-49
Yugoslavia	7	9	-2
Turkey	2	58	-56
United States	2	16	-14
France	2	15	-13
Macedonia	2	24	-22
Austria	2	12	-10
Bulgaria	n.a.	26	n.a.

### 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Albania's exports was \$340

million while imports totaled \$1.5 billion resulting in a trade deficit of \$1.16 billion.

The International Monetary Fund (IMF) reports that in 2001 Albania had exports of goods totaling \$305 million and imports totaling \$1.33 billion. The services credit totaled \$534 million and debit \$444 million. The IMF attributes the fall in exports in recent years to a decline in industrial production. Recent increases in imports were due to increased domestic demand for imported goods, in addition to large increases in electricity imports. Remittances from abroad have improved Albania's balance of payments. The following table summarizes Albania's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	-220
Balance on goods	-1,027
Balance on services	90
Balance on income	146
Current transfers	571
<b>Capital Account</b>	118
<b>Financial Account</b>	110
Direct investment abroad	...
Direct investment in Albania	207
Portfolio investment assets	-24
Portfolio investment liabilities	...
Other investment assets	-197
Other investment liabilities	123
<b>Net Errors and Omissions</b>	139
<b>Reserves and Related Items</b>	-147

### 33 BANKING AND SECURITIES

The Communist regime nationalized all banking and financial institutions in 1945 and established the Bank of the Albanian State (now simply the Bank of Albania), which became the bank of issue. The bank also controlled foreign transactions, helped prepare financial plans for the economy, accepted savings deposits, financed economic activities, and performed other banking functions. An agricultural bank was created in 1970 to provide credit facilities for agricultural cooperatives.

On 10 August 1949, the Directorate of Savings was established to grant loans and to accept savings deposits in branches throughout the country; the system has grown steadily ever since.

When the Soviet Union collapsed in 1991, Albania decided to develop a market economy. The banking system changed to meet the demands of a free-market economy. However, in October 1996, the Islamic Conference's financing arm, the Islamic Development Bank, made a \$12 million loan to Albania. The logic of the government's Islamic focus is unclear.

The government's position has been weakened considerably as a result of the collapse of four of the country's major pyramid investment schemes, leading to anarchic, nationwide demonstrations by furious investors. In January of 1997, a 20,000-strong crowd marched on Skanderberg Square, where it demanded that the government guarantee all deposits in the companies. Notable pyramid investment companies included VEFA, Kamberi, Populli, Xhaferrri, Gervnasi, Gjallica, and Sudja.

The informal financial market has absorbed millions of dollars of savings and remittances in recent years (estimates run as high as \$1 billion), at the expense of the country's inefficient and uncompetitive banking sector. The pyramid investment schemes attracted hundreds of thousands of depositors—local estimates put participation in the companies at about 75% of all households—by guaranteeing to pay high interest rates on cash deposits within a short period of time.

Much of the blame for crisis rested with the government, whose policy towards the companies was not simply cavalier but actively encouraging. It did not pay attention to requests made by

the central bank governor to regulate the pyramid schemes more tightly.

The privatization of the three state-owned commercial banks has long been advocated by the International Monetary Fund and the World Bank. The government has privatized the Rural Commercial Bank and the National Commercial Bank, and is working towards privatizing the Savings Bank of Albania, which holds nearly 80% of all Albanian bank deposits. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$997 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$2.7 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 10.82%.

### 34 INSURANCE

Insurance was nationalized by the Communist government after World War II. Under the jurisdiction of the Ministry of Finance, the program is administered by the Institute for Insurance, created in 1950. Half the profits are earmarked for the state budget, the other half for a reserve fund. In 1990, income from social insurance contributions totaled 1,967 million. Total expenditures—for temporary disability, pregnancy, childbirth, rest home stay, and pensions—were 1,440 million. In 2002, Albania's Parliament passed a law to privatize the insurance agency, hoping to create a competitive industry.

### 35 PUBLIC FINANCE

Albania began its transition from a centrally-planned economy to a market driven economy in 1992, after GDP had collapsed by over 50% in 1989. The government elected in 1992 set in motion a series of aggressive economic reforms to light the path towards a market economy. Among the reforms were price and exchange regime liberalization, fiscal consolidation, monetary restraint, and a rigid income policy. Stalling progress in 1997 was followed by a resumption of growth the next year.

The US Central Intelligence Agency (CIA) estimates that in 2002 Albania's central government took in revenues of approximately \$697 million and had expenditures of \$1.5 billion including capital expenditures of \$368 million. Overall, the government registered a deficit of approximately \$803 million. External debt totaled \$784 million.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	697
Tax revenue	69.5%	485
Non-tax revenue	21.2%	148
Grants	9.2%	64
EXPENDITURES	100.0%	1,500
General public services	5.8%	87
Defense	3.5%	53
Public order and safety	5.8%	88
Education	1.9%	29
Health	3.8%	57
Social security	20.1%	301
Housing and community amenities	2.9%	44
Recreation, cultural, and religious affairs	0.9%	14
Economic affairs and services	10.9%	163
Other expenditures	18.1%	272
Interest payments	26.2%	392

### 36 TAXATION

As of 1999, personal income is taxed in six brackets, from 5% to 30%, with 5% starting at an income of about \$86/month, and the 30% rate, plus a flat fee of about \$45, applied to incomes over about \$1,030/month. The corporate income tax rate is 30%, applied equally to both domestic and foreign-owned companies. Tax preferences previously accorded foreign investors—a four year tax holiday, and up to a 60% reduction on income from reinvested profits—were removed for future foreign investors on the advice of the IMF and World Bank. There is property tax on agricultural land and buildings. Indirect taxes include a value-added tax (VAT) applied to businesses with annual turnover exceeding five million Lek (about \$43,000), small business taxes, and excise taxes on tobacco, alcohol, soft drinks, coffee, gasoline products, perfumes and deodorants. The VAT rate is 20%. Small businesses with annual turnover of less than two million Lek a year pay a yearly lump sum ranging from 15,000 Lek to 100,000 Lek. Businesses with turnover in the range of two million Lek to five million Lek pay a 4% of turnover tax. Exports are exempt from both excise and VAT. Financial transactions are exempt from VAT, and liquefied gas is exempt from excise.

### 37 CUSTOMS AND DUTIES

Under the jurisdiction of the Ministry of Trade, the general directorate of customs and duties administers customs regulations. With certain exemptions, all goods are subject to duties ranging from 5-10%, depending on product type. Having become a member of the World Trade Organization in September 2000, Albania is working with Bulgaria, Croatia, Macedonia, Romania, and Serbia and Montenegro to create a regional free trade zone.

### 38 FOREIGN INVESTMENT

Prior to 1990, no foreign capital was invested in postwar Albania, but various communist states aided the Albanian industrialization program, supplying credit, machinery and equipment, and technicians. Prior to 1961, assistance by Soviet-bloc technicians in geologic surveys, construction, and operation of factories was vital to Albanian economic growth. Following the Soviet suspension of credits, withdrawal of technicians, and elimination of trade, China increased its activity in all these areas. In 1978, China terminated all its economic and military cooperation with Albania and the following year Albania was for the first time without any foreign assistance. In the 1980s, some economic assistance was provided by the FRG.

After the fall of communism, foreign investment was encouraged and 149 joint ventures were agreed upon. A \$10 million Coca-Cola bottling plant set up in 1994 outside of Tiranë (directly employing about 100 people), the European Bank for Reconstruction and Development, and a local Albanian company were early ventures. In 1995, Albania concluded a bilateral investment treaty with the United States. At the end of 1995, foreign investment was projected to rise to about \$600 million, with about one-half of that coming from Italy. However, the prospects for foreign investment dropped sharply in 1997 in the wake of the violence and property destruction that followed the collapse of the pyramid schemes in which many Albanians had sunk their savings. The violent removal of the Prime Minister in 1998 and the influx of Kosovar refugees in 1999 were added deterrents to foreign investment. From 1997 to 1999, foreign direct investment in Albania averaged only \$44.57 million, but in 2000 the rate of inflow tripled to \$143 million and then in 2001 to \$181 million.

In 2003, the UN Development Program assisted the Albanian government in setting up the Investment Promotion Agency (ANIH) that replaces the Economic Development Agency. Previously, the government had put few restrictions on foreign

investment, but had offered no tax or financial incentives beyond national treatment. An improved investment regime is a priority for the current government.

### 39 ECONOMIC DEVELOPMENT

Albania formerly had a state-controlled, centrally planned economy, with emphasis on industrial development and socialized agriculture. Under Workers Party directives, short-term and long-range plans were formulated by the Economic Planning Commission, a government agency. By the mid-1980s, the economy was virtually under complete state control; enterprises were either directly owned by the state or managed through cooperatives.

From 1951, Albanian economic development was directed by five-year plans, most of which stressed heavy industry. A sweeping economic reform program was announced in 1992. It called for widespread private ownership of farmland, state-owned companies and housing, and the removal of trade restrictions and price controls. Yet after nearly a decade of post-Communist rule, Albania remains by far the poorest country in Europe. For much of the 1990s, economic reforms were stifled by rampant corruption. Only after the collapse of pyramid investment schemes did the situation begin to improve. Nevertheless, Albania relies heavily on foreign aid and seeks to secure more funding for infrastructure improvements.

Economic development in the early 2000s was stimulated by the construction and service industries: the lack of housing under communism led to a demand for new housing construction, and the development of tourism in Albania's seaside resorts has fueled the service sector. The country is undergoing an economic restructuring program with the International Monetary Fund (IMF) and World Bank. A three-year Poverty Reduction and Growth Facility program with the IMF was negotiated in 2002, in the amount of some \$38 million. In 2003, Albania entered into negotiations with the European Union (EU) for a Stabilization and Association Agreement.

### 40 SOCIAL DEVELOPMENT

The first law providing benefits for disability, old age, survivors, and retirement was introduced in 1947. The current law on pensions sets a retirement age of 60 for men and 55 for women, with 35 years of contributions. Mothers with six or more children are eligible at age 50, with 30 years of contributions. The amount of the pension is up to 75% of average net wages during 3 of the last 10 years of employment. Disability pensions provide as much as twice the basic pension or 80% of the last average wage. Contributions are made largely by employers (26% of payroll), but additional sums are provided by employees and by the state budget.

Unemployment benefits were first introduced in 1993. Eligibility requirements include at least one year's contributions, and a willingness to undergo training. Contributions are made by the employer at a level of 6% of payroll. Benefits are given at a flat rate allowing for a minimum standard of living as set by the Council of Ministers. A program of Family Allowances was also introduced in 1992 and is fully funded by the government. Maternity and sickness benefits are also provided. Employees may receive benefits for up to one year for maternity leave.

Albania's constitution prohibits discrimination based on sex, and women make up roughly half the labor force. The principle of equal pay for equal work is incorporated into the Labor Code although women are underrepresented in higher positions and are often underemployed. Women have equal access to higher education, and many obtain professional positions in the medical and legal fields. However, traditional attitudes towards females persist, and discrimination in the workplace has not been eliminated. Abuse and violence against women remain underreported. In 1993, the country's first nonpolitical women's

group, Reflexione, was formed to expand women's legal rights. Blood feuds, or violent rival factions, continue to limit the safety of women and children. Child abuse and trafficking in women have also been reported as significant problems.

Religious tolerance is prevalent, and the constitution provides for coexistence between ethnic groups. The Office of National Minorities was established to monitor Albania's minority issues.

### 41 HEALTH

Health care facilities in the 1990s were substandard and much of their equipment obsolete. In 1992 Albania had 16 hospitals, with 14,000 beds. In 1996, hospital beds declined to 9,600. In 1993 there were almost 1,000 health centers staffed by primary care physicians and nurses and more than 2,300 walk-in clinics staffed by a nurses or midwives. As of 1999, the total expenditure on health was estimated at 3.3% of GDP. In 1995, the ratio of hospital beds per 1,000 people stood at 3.2. In 1998, there were an estimated 1.3 physicians and 3.8 nurses per 1,000 people. There is a medical school in Tiranë (part of the Enver Hoxha University) and some Albanians receive medical training abroad. Tertiary care, available mostly in Tiranë, includes a teaching hospital, an obstetric and gynecological facility, a facility for treating respiratory diseases, and a military hospital. Albania's health care system was strained by the admission of as many as 500,000 Albanian refugees from Kosovo in the spring of 1999.

The general improvement of health conditions in the country is reflected in the lower mortality rate, down to an estimated 6.49 deaths per 1,000 in 2000, as compared with 17.8 per 1,000 in 1938. In 2000, average life expectancy was estimated at 74 years, compared to 38 years at the end of World War II. Albania's infant mortality rate, estimated at 20 per 1,000 live births in 2000, has also declined over the years since the high rate of 151 per 1,000 live births in 1960. There were 69,802 births in 1999 and the fertility rate in 1999 was 2.5 while the maternal mortality rate was 65 per 100,000 live births in 1993. In addition, in 1997, Albania had high immunization rates for children up to one year old: tuberculosis at 94%; diphtheria, pertussis, and tetanus, 99%; measles, 95%; and polio, 99.5%. In 1996, the incidence of tuberculosis was 23 in 100,000 people. In 1995 there were two reported cases of AIDS and seven cases in 1996. As of 2000 the number of people living with HIV/AIDS was estimated at less than 100. The leading causes of death are cardiovascular disease, trauma, cancer, and respiratory disease.

### 42 HOUSING

During World II, about 61,000 buildings of all types were destroyed, including 35,400 dwellings. Housing was generally primitive in rural areas and poor elsewhere. After the war, housing continued to be a problem for a variety of reasons: primary emphasis on industrial construction, shortages of materials and skilled labor, and lack of or inadequate assistance for private building. Moreover, the increase of urban population worsened an already desperate situation. Consequently, new housing construction was concentrated in Tiranë, Vlorë, Elbasan, Shkodër, Durrës, and Korçë, as well as in other industrial and mining sites.

Nearly 29% of all housing currently available was built during the period from 1961-1980. According to the preliminary results of a 2001 census, there were about 520,936 residential buildings in the country containing about 783,640 dwellings. About 30% of the dwelling spaces were block flats constructed and owned by the government during the Communist era. Most public housing was privatized during the period from 1992-93. A 1998 Household Living Condition survey indicated that about 74% of rural households did not have an indoor toilet and 54% did not have access to running water. In comparison, 18% of urban households were without an indoor toilet and 5% lacked running

water. The most common form of housing construction is a concrete frame filled with brick or block in-fill.

### 43 EDUCATION

Before and during World War II, about three-fourths of the population was illiterate. Great strides have been made since then, and as of 2000, the government claims that complete literacy has been achieved; however, Western estimates put the adult illiteracy rate at 15% (8% for males and 23% for females). Public expenditures on education were estimated at 3% of GDP in 1995.

Preschool training for children ages three through six is general but not obligatory. The basic compulsory school program, extending for eight years (ages 6 to 14), combines practical work with study. In 1997, there were 559,457 primary students, with a teaching staff of about 30,110. Secondary education lasts from three to five years, depending on the type of school attended. These include comprehensive and vocational schools as well as schools specializing in the arts, sports, foreign languages, and pedagogy. At the secondary level in 1996, there were 6,321 teachers and 89,895 students. Student-to-teacher ratio as of 1999 stood at 18 to 1 for primary education and 17 to 1 for secondary schools.

Other institutes of higher learning include two agricultural schools, one institute for fine arts, one institute of physical culture, and three teacher-training institutes. In 1997, all institutions of higher education had 2,348 teachers and a combined enrollment of 34,257 students. In 1957, the Institute of Sciences was elevated to university rank, and Tiranë State University became the first and only institution of university status in Albania. It was later renamed Enver Hoxha University of Tiranë. In 1971, two more universities were founded—Universiteti I Koree and Universiteti Bujguesor I Tiranës. In 1991, the University of Shkodër was established.

### 44 LIBRARIES AND MUSEUMS

The largest library in Albania is the National Library in Tiranë (1922) with over one million volumes. The University of Tiranë library has 700,000 volumes. Tiranë also has several university libraries with specialized collections, including the Higher Agricultural Institute Library (126,000 volumes) and the Fine Arts Institute Library (40,000 volumes). Albania's Public Assembly maintains a library of 41,000 volumes, also in Tiranë. Public libraries exist in many communities with notable ones in Elbasan (284,000 volumes), Shkodër (250,000 volumes), Durrës (180,000 volumes) and Korçë (139,000 volumes).

The principal museums are the Museum of Archaeology, the Fine Arts Gallery, the Museum of the Struggle for National Liberation, the Natural Science Museum, and the National Historical Museum, all located in Tiranë. There are some 30 provincial museums, among them the Berat Museum, known for its collection of historic documents; the Museum of Architecture in Berat; the Onufri Iconographic Museum, located in Berat's main castle and housing a distinguished collection of medieval icons; the Museum of Education in Elbasan; the Museum of Albanian Medieval Art in Korce; and the Shkodër Museum in Shkodër, a historical museum tracing Albanian culture to the Neolithic Age. The cities of Berat and Gjirokastër, the first dating from antiquity and the second from the Middle Ages, have been designated "museum-cities."

### 45 MEDIA

Communications are owned and operated by the state and are administered by the Ministry of Communications. In 2001, there were 120,000 main line telephones and 250,000 mobile cellular phones. Some villages may not have telephone service at all. Radio and TV broadcasting is governed by the National Council of Radio and Television (NCRT), a seven-member bipartisan

body elected by the Parliament. Seventeen radio stations (13 AM and 4 FM) operated by Radiotelevizioni Shqiptar (Albanian Radio and Television—RTVSh), are located at Kashar, a suburb of Tiranë, and at Shkodër, Stalin, Vlorë, Gjirokastër, Korçë, and several other towns. Television was introduced in 1961, color broadcasts in 1981. As of 2000, there were 2 national and 50 local television stations. In the same year, there were 1,000,000 radios and 700,000 television sets.

There are several daily newspapers published in Tiranë. In 2002 the four major ones were *Koha Jone* (Our Time, circulation 400,000); *Zëri i Popullit* (People's Voice—circulation 105,000), published by the Socialist Party; *Rindia Demokratike* (The Democratic Revival—circulation 50,000), published by the Democratic Party; and *Bashkimi Kombëtar* (circulation 30,000), published by the Democratic Front. There are about 200 publications overall, including daily and weekly newspapers, magazines, newsletters, and pamphlets. At least 2 newspapers were published in Greek with about 15 Greek papers and magazines distributed, primarily throughout the south. *Albanian Newspaper* (circulation 30,000) is published in Italian and *Albanian Daily News* is a daily paper published in English. Agjensia Telegrafike Shqiptare (Albanian Telegraphic Agency) is the official news agency.

Though the law protects freedom of speech and press, nearly all news stories are designed to suit the publishers political and economic interests.

As of 2001, there were 10 Internet service providers and about 12,000 Internet users.

### 46 ORGANIZATIONS

Trade unions in Albania were prohibited until 1991. Before 1991 the official trade unions of the country were responsible for promoting the production goals of the country's Communist government. In 1991, independent trade unions were established to promote the rights of workers. The Union of Independent Trade Unions is the most important umbrella trade organization. Other trade unions operate in the defense, agriculture, food processing, and mining sectors of the economy. Albania has three chambers of commerce. The Chamber of Commerce of the republic of Albania promotes the economic and business activities of the country in world markets. Other chambers of commerce are located in Shkodei, Durrës and Gjirokastër.

The Open Society Foundation for Albania is a non-profit organization established in 1992 to encourage the process of the democratization of Albanian society. It is sponsored in part by the SOROS Foundation Network, a fund established by American philanthropist George Soros.

There are a number of youth organizations in the country. The Albanian International Youth Committee (AIYC) serves as the major non-governmental youth platform that encompasses several different youth and student organizations. It is supported by the Albanian Youth Federation (AYF) and seeks to represent the views of organized Albanian youth. A youth scouting movement (Besa Skaut Albania) is active in the country. There are also organizations of the YWCA, the Red Cross, and the Red Cross Youth.

### 47 TOURISM, TRAVEL, AND RECREATION

Albania was once the most inaccessible country in Eastern Europe, with tight entry regulations keeping most Western visitors out. In the early 1980s, persons explicitly forbidden to visit the country were US citizens, Soviet citizens, and full-bearded men. However, since the advent of democracy, Albania has slowly become accessible to the outside world. Tourists can now obtain visas within 2 weeks. In promoting travel to Albania, the official tourist agency cites the Adriatic beaches, especially at Durrës, Vlorë, and Sarandë, and the picturesque lakes. The most popular sports are soccer, gymnastics, volleyball, and basketball.

In 2000, about 317,000 visitors arrived in Albania, spending a total of US\$389 million. Hotel rooms numbered 2,954.

In 1999 the UN estimated the daily cost of staying in Tiranë at \$115–\$179. Rural areas may be as low as \$48.

#### 48 FAMOUS ALBANIANS

Much Albanian popular lore is based on the exploits of the national hero Gjergj Kastrioti (known as Scanderbeg, 1405–68), who led his people against the Turks.

Ahmet Bey Zogu (1895–1961), shepherd, military commander, minister of the interior, and premier, was elected first president of the new republic in 1925; in 1928, when Albania became a kingdom, he ascended the throne as Zog I. After Italian forces occupied Albania in April 1939, he fled the country, dying in exile in southern France. Two major political leaders were Enver Hoxha (1908–85), postwar Albania's first premier, minister of foreign affairs, and defense minister; and Mahmet Shehu (1913–81), who replaced Hoxha as premier in 1954, when Hoxha became first secretary of the Workers Party's Central Committee.

Albania's written literature of a nationalist character first developed among Italo-Albanians in Calabria in the mid-19th century and among the Albanian intellectuals in Constantinople in the second half of the 19th century. Naim Erashëri (1846–1900), Albania's national poet, belonged to the Constantinople group. His most highly regarded works are *Bagëti e Bujqësi* (*Cattle and Land*), *Histori e Skenderbeut* (*History of Scanderbeg*), and a collection of short poems, *Lulet e Verës* (*Spring Flowers*). Kostandin Kristoforidhi (K. Nelko, 1827–95) translated the Old and New Testaments into Albanian and compiled a standard Albanian-Greek dictionary. Faik Konitza (1875–1942), prewar Albanian minister to Washington, edited a literary review, *Albania*, which became the focal publication of Albanian writers living abroad. Gjergj Fishta (1871–1940), a Franciscan friar who was active in the nationalist movement, wrote a long epic poem, *Labuta e Malcís* (*The Lute of the Mountains*), which is regarded as a masterpiece of Albanian literature. Bishop Fan Stylian Noli (1882–1965), a political leader in the early 1920s, was Albania's foremost translator of Shakespeare, Ibsen, Cervantes, and other world classics. Lasgush Poradeci (1899–1987) was a highly regarded lyric poet.

#### 49 DEPENDENCIES

Albania has no territories or colonies.

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# ANDORRA

Principality of Andorra

*Principat d'Andorra*

**CAPITAL:** Andorra la Vella

**FLAG:** The national flag is a tricolor of blue, yellow, and red vertical stripes. The yellow stripe bears the coat of arms.

**ANTHEM:** The *Himne Andorra* begins “El gran Carlemany mon pare” (“Great Charlemagne my father”).

**MONETARY UNIT:** Andorra has no currency of its own; the euro, adopted by both Spain and France, is used. There are coins of 1, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system and some old local standards are used.

**HOLIDAYS:** New Year’s Day, 1 January; National Festival, 8 September; Christmas, 25 December. Movable religious holidays include Good Friday and Easter Monday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Landlocked Andorra lies in southwestern Europe on the southern slopes of the Pyrénées Mountains between the French departments of Ariège and Pyrénées-Orientales to the N and the Spanish provinces of Gerona and Lérida to the S, with a total boundary length of 120.3 km (74.6 mi).

Andorra is about 2.5 times the size of Washington, D.C., with a total area of 468 sq km (180 sq mi), extending 30.1 km (18.7 mi) E–W and 25.4 km (15.8 mi) N–S.

Andorra’s capital city, Andorra la Vella, is located in the southwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

Andorra is situated in a single drainage basin, but its main stream, the Riu Valira, has two distinct branches and six open basins; hence the term “Valleys” (Les Valls) was traditionally employed as part of the name of the principality. The section of the river flowing through El Serrat by way of Ordino and La Massana is the Valira del Nord, while that flowing through Canillo, Encamp, and Les Escaldes is the Valira d’Orient. Most of the country is rough and mountainous, and there is little level surface. All the valleys are at least 900 m (3,000 ft) high, and the mean altitude is over 1,800 m (6,000 ft). There are lofty peaks, of which the highest is Coma Pedrosa (2,946 m/9,665 ft).

## <sup>3</sup>CLIMATE

Because of its high elevation, Andorra has severe winters. The northern valleys are completely snowed up for several months. Most rain falls in April and October. Humidity is very low. Summers are warm or mild, depending on the altitude. There are considerable variations between maximum day and night temperatures.

## <sup>4</sup>FLORA AND FAUNA

The plant and animal life is similar to that found in the neighboring areas of France and Spain. Chestnut and walnut trees grow only in the area around Sant Julià de Lòria, the lowest

village. Elsewhere, evergreen oaks still are common. Higher regions and many valleys have pines, firs, and various forms of subalpine and alpine plant life. At the highest altitudes there are no trees, but grass is plentiful during the summer. There are carnations, violets, bellflowers, and daisies, as well as blackberries, wild strawberries, and moss. Bears, wolves, foxes, martens, Pyrenean chamois, rabbits, hares, eagles, vultures, wild ducks, and geese may be found in isolated areas. The mountain streams contain trout, brochet, and crayfish.

## <sup>5</sup>ENVIRONMENT

Andorra was once heavily forested. One explanation for the name of the country is that it came from the Moorish word *aldarra*, meaning “place thick with trees.” Andorra’s mountainous environment attracts 12 million tourists each year. In recent decades, however, the forested area has been decreasing steadily. Overgrazing of mountain meadows by sheep, with consequent soil erosion, is another environmental problem. The Apollo butterfly, the European otter, and the lesser horseshoe bat are vulnerable species.

## <sup>6</sup>POPULATION

The population of Andorra in 2003 was estimated by the United Nations at 68,000, which placed it as number 184 in population among the 193 nations of the world. In that year approximately 13% of the population was over 65 years of age, with another 15% of the population under 15 years of age. There were 109 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 2.59%, with the projected population for the year 2015 at 95,000. The population density in 2002 was 147 per sq km (380 per sq mi).

It was estimated by the Population Reference Bureau that 93% of the population lived in urban areas in 2001. The capital city, Andorra la Vella, had a population of 25,000 in that year. Other leading towns are Les Escaldes, Sant Julià de Lòria, Encamp, and La Massana. According to the United Nations, the urban population growth rate for 2000–2005 was 3.1%.

The population is concentrated in the seven urbanized valleys that form Andorra's political districts.

## 7 MIGRATION

Immigration consists mainly of Spanish, Portuguese, and French nationals who intend to work in Andorra; these groups make up some 70% of the population. Spanish nationals account for the largest group of foreign residents, comprising approximately 43% of the population in 1999. There is also a small but rapidly growing group of African immigrants, especially from North Africa, working mostly in agriculture and construction. Immigrant workers are supposed to hold temporary work authorization permits, which are valid only as long as the job exists for which the permit was obtained. However, more than 4,000 immigrants did not have work permits in 1999, due to the fact that the quota for immigration is not as high as the number of workers needed in the country. In 1999, the net migration rate was 17.61 migrants per 1,000 population. In 2000, approximately 81% of the population was not born in Andorra. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

Native Andorrans made up only about 33% of the total population in 1998; they are of Catalan stock. About 43% of the population was Spanish, 11% were Portuguese, and about 7% were French. About 6% are from other groups.

## 9 LANGUAGES

The official language is Catalan. French and Castilian are also spoken.

## 10 RELIGIONS

Traditionally, over 90% of all Andorrans are Roman Catholic. Though it is not an official state religion, the constitution acknowledges a special relationship with the Roman Catholic Church. The Muslim community (about 2,000 people) are primarily north African immigrants. Other Christian denominations include the Anglican Church, Jehovah's Witnesses, the Reunification Church, the New Apostolic Church, and the Church of Jesus Christ of Latter-Day Saints.

## 11 TRANSPORTATION

A north-south highway links Andorra la Vella with the Spanish and French borders. Secondary roads and trails also cross the border but are sometimes closed in winter because of deep snows. There were 269 km (167 mi) of roads in 2001, of which 198 km (123 mi) were paved. As of 1995 there were 40,127 motor vehicles, of which 35,941 were passenger cars and 4,186 were trucks, taxis, and buses.

Buses, the principal means of mass transit, provide regular service to Seo de Urgel and Barcelona in Spain, and to Perpignan in France. Among several cable cars, the most important operates between Encamp and Engolasters Lake. Most merchandise is transported by vehicles from neighboring countries.

Andorra does not have railways or commercial airports, but the airport at Seo de Urgel is only 20 km (12.5 mi) from Andorra la Vella. The nearest international airports are at Barcelona, Spain, located 215 km (134 mi) from Andorra, and at Toulouse, France, 165 km (103 mi) away. There is daily bus service from the Barcelona and Toulouse airports to Andorra.

## 12 HISTORY

According to one tradition, Charlemagne gave the region the name Andorra for its supposed likeness to the biblical town of Endor. Tradition also asserts that Charlemagne granted the Andorran people a charter in return for their help in fighting the Moors, and that Charlemagne's son Louis I, king of France, confirmed the charter.

It is generally agreed that Charles the Bald, the son of Louis, appointed the count of Urgel (now Seo de Urgel) overlord of Andorra and gave him the right to collect the imperial tribute. The bishop of Urgel, however, also claimed Andorra as part of the endowment of his cathedral. In 1226, the lords of the countship of Foix, in present-day south-central France, by marriage became heirs to the counts of Urgel. The quarrels between the Spanish bishop and the French counts over rights in Andorra led in 1278 to their adoption of a *paréage*, a feudal institution recognizing equal rights of two lords to a seigniorage.

In 1505, Germaine of Foix married Ferdinand V of Castile, thereby bringing the lordship of Andorra under Spanish rule. On taking over the kingdom in 1519, Emperor Charles V granted the lordship of Les Valls, as it was then known, to Germaine of Foix's line in perpetuity. Henry III of Navarre, who was also count of Foix, in 1589 ascended the French throne as Henry IV, and by an edict of 1607 established the head of the French state, along with the bishop of Urgel, as co-princes of Andorra.

In 1793, the French revolutionary government refused the traditional Andorran tribute as smacking of feudalism and renounced its suzerainty, despite the wish of the Andorrans to enjoy French protection and avoid being under exclusively Spanish influence.

Andorra remained neutral in the Napoleonic wars with Spain. Napoleon restored the co-principality in 1806 after the Andorrans petitioned him to do so. French title to the principality subsequently passed from the kings to the president of France.

Long an impoverished land having little contact with any nations other than adjoining France and Spain, Andorra after World War II achieved considerable prosperity through a developing tourist industry. This development, abetted by improvements in transport and communications, has tended to break down Andorra's isolation and to bring Andorrans into the mainstream of European history. Public demands for democratic reforms led to the extension of the franchise to women in the 1970s and to the creation of new and more fully autonomous organs of government in the early 1980s.

Andorra formally became a parliamentary democracy in May 1993 following approval of a new constitution by a popular referendum in March 1993. The new constitution retained the French and Spanish co-princes although with reduced, and narrowly defined, powers. Civil rights were greatly expanded including the legalization of political parties and trade unions, and provision was made for an independent judiciary. Andorra entered into a customs union with the European Communities (now the EU) in 1991 and was admitted to the UN on 28 July 1993. The country has been seeking ways to improve its export potential and increase its economic ties with its European neighbors. The financial services sector of the economy is highly important, given Andorra's status as a tax haven and its banking secrecy laws.

## 13 GOVERNMENT

The governmental system of Andorra is unique. The constitution adopted in 1993 retained the French and Spanish co-princes but reduced their powers. The co-princes are the president of France and the bishop of Urgel, Spain. The co-princes are represented in Andorra by permanent delegates and *veguers*. Both the delegates and *veguers* reside in Andorra and acquire Andorran nationality *ex officio*, but they are not typically native Andorrans.

Legislation is enacted by the General Council, consisting of 28 members (14 members chosen from the national constituency and 14 representing the 7 parishes), elected for a four-year term since December 1981.

As of 2003, the president of the General Council was Marc Forné Molné. The General Council designates as its head a first syndic (syndic procureur général) and a second syndic for the conduct of administration; upon election to their four-year terms, these syndics cease to be members of the council.

The right to vote, which at one time was limited to third-generation Andorran males of 25 years of age or over, by 1981 had been extended to include all native Andorrans of Andorran parentage (at age 21) and first-generation Andorrans of foreign parentage (at age 28). In October 1985, the voting age was lowered to 18 years. In October 1992, the suffrage was broadened to include spouses of Andorran citizens and long-term residents.

## 14 POLITICAL PARTIES

Prior to 1993, political parties were illegal in Andorra, though the Democratic Party of Andorra (formed in 1979) was tolerated. There have been two main factions in organized political life—conservatives and liberals. However, in the 2001 elections, three parties with distinct political tenets competed: the conservative Liberal Party, the left-of-center Social Democratic Party, and the centrist Democratic Party.

The general election of December 1993, in which five parties gained representation, was the first under Andorra's new constitution. The 2001 General Council election results were as follows: the Liberal Party (Partit Liberal—PLA), 15 seats; the Social Democratic Party (Partit Socialdemòcrata—PSD), 6; the Democratic Party (Partit Demòcrata—PD), 5; and the local Lauredian Union (Unió Laurediana—UL), 2.

## 15 LOCAL GOVERNMENT

Andorra is divided into seven parishes or districts: Andorra la Vella, Canillo, Encamp, La Massana, Les Escaldes, Ordino, and Sant Julià de Lòria. Eligible voters in each of the districts elect members of its parish council (comú).

Parish councils administer local affairs. Each council generally consists of 8 to 14 members elected by universal suffrage for four-year terms at the same time as general councilors. Councils elect a senior consul and a junior consul.

## 16 JUDICIAL SYSTEM

The 1993 constitution guarantees an independent judiciary and the judiciary has in fact been independent. A Superior Council of Justice oversees and administers the judicial system. The Superior Council of Justice has five members. One member each is appointed by: the two co-princes; the head of government; the president of the General Council, and members of the lower courts. Members of the judiciary are appointed for 6-year terms. The judicial process is fair and efficient.

The new constitution also calls for respect for the promotion of liberty, equality, justice, tolerance, defense of human rights, dignity of the person, and privacy, and guarantees against arbitrary arrest and detention.

Under the current system, civil cases in the first instance are heard by four judges (batlles). Appeals are heard in the Court of Appeal. Final appeals in civil cases are brought before the Supreme Court of Andorra at Perpignan, France, or the Ecclesiastical Court of the Bishop of Seu d'Urgell, Spain.

Criminal cases are heard in Andorra la Vella by the Tribunal des Cortes, consisting of the veguers, and the judge of appeal, two batlles, and two members of the General Council. Few criminal trials are held, and the principality's jail is used only for persons awaiting sentencing. Sentenced criminals have the choice of French or Spanish jails. The courts apply the customary law of Andorra, supplementing it where necessary with Roman law and customary Catalan law. Traditional laws are compiled in the Manual Digest of 1748 and the Politar of 1763; legal standards are found in the Instructions to Bailiffs of 1740.

## 17 ARMED FORCES

Andorra has no defense force, and the police force is small. The sole military expenses are for ammunition used in salutes at



LOCATION: 42°25' to 42°40' N; 1°25' E. BOUNDARY LENGTHS: France, 60 kilometers (37.3 miles); Spain, 65 kilometers (40.4 miles).

official ceremonies, the lone responsibility of Andorra's small army. France and Spain are pledged to defend Andorra.

## 18 INTERNATIONAL COOPERATION

Andorra was admitted to the UN on 28 July 1993. It participates in the ECE, ICAO, ITU, OSCE, UNESCO, WHO, WIPO, WTOO, and is an observer at the WTO. It is also a member of the Council of Europe.

## 19 ECONOMY

The Andorran economy is primarily based on trade and tourism, with the traffic between France and Spain providing most of the revenue. Approximately nine million tourists visit Andorra each year.

The Andorran banking system is of some importance as a tax haven for foreign financial transactions and investments. Andorra also is a tax haven because there are no direct taxes.

Prior to the creation of the European Union there was an active trade in consumer goods, which were duty-free in Andorra. With the creation of the Union, Andorran manufactured goods remain tariff free, but Andorran agricultural products are subject to EU tariffs. The production of agricultural goods is limited, though, as only 2% of the land is arable.



## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2000 Andorra's gross domestic product (GDP) was estimated at \$1.3 billion. The per capita GDP was estimated at \$19,000. The annual growth rate of GDP was estimated at 3.8%. The average inflation rate in 2000 was 4.3%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange.

## 21 LABOR

Total employment as of 2001 was estimated at 33,000, of which less than 1% was employed in the agriculture sector. The service industry accounted for 78% of the workforce, with industry providing jobs to 21%. There is virtually no unemployment in Andorra.

Under the constitution passed in 1993, workers were granted the right to form and maintain trade union associations without prejudice, but implementation has not been provided. Associations must register with the government, and in 2002, there were 600 such associations. However, no unions existed as of that year. It is unclear whether strikes are legal under the constitution. With no business regulation or registration requirements, smuggling goods between France and Spain is a leading source of informal employment.

There are government-mandated health and safety standards, which are regularly enforced with routine inspections. There is a government-set minimum wage, which was \$3.65 per hour in 2002. The minimum working age is 18, with some exceptions allowing 16- and 17-year-olds to work. The workweek is limited to 40 hours, with an additional 66 hours per month of overtime allowed.

## 22 AGRICULTURE

Because of Andorra's mountainous character, only about 2% of the land is suitable for crops. However, until the tourism sector in Andorra experienced an upsurge, agriculture had been the mainstay of the economy. Hay, tobacco, and vegetables must be irrigated; cereals, mainly rye and barley, are dry-cropped. Most of the cropped land is devoted to hay production for animal feed. Since there is insufficient sunlight on northward-facing slopes and the lands in shadow are too cold for most crops, some southward-facing fields high in the mountains must be used even though they are a considerable distance from the farmers' homes.

Tobacco, the most distinctive Andorran crop, is grown on the best lands. Andorran tobacco is usually mixed with eastern tobaccos, because of its strong quality. Other farm products include cereals, potatoes, and garden vegetables. Grapes are used mainly for raisins and for the making of anisette. The lack of modern methods on Andorra's family farms is causing the agricultural sector to decrease in importance. Most food is now imported.

## 23 ANIMAL HUSBANDRY

For many centuries, until eclipsed by tourism and other service industries, sheep raising was the basis of Andorra's economy. Andorran mules are still greatly prized. Cattle, sheep, and goats are raised both in the valleys and in some of the higher areas. Cattle are raised mainly for their meat, and there are few dairy cows. When the cattle move upward in the spring, entire families move to temporary villages in the mountains to herd, mow, and plant. Large droves of sheep and goats from France and Spain feed in Andorra in the summer, and the Spanish-owned animals in particular are looked after by Andorran shepherds. On their way back to their native land, many of the animals are sold at annual fairs; the Spanish fairs are usually held in Andorra in

September and the French in November. Andorra's own animal fairs are also held in the fall.

Livestock includes an estimated 9,000 sheep, 1,100 cattle, and 200 horses. Meat production has increased in recent years, but imports account for about 90% of total meat consumption. The milk produced is sufficient for domestic consumption, and some milk has been exported to Spain.

## 24 FISHING

The streams are full of trout and other freshwater fish, but Andorra imports most fish for domestic consumption from Spain.

## 25 FORESTRY

About 10,000 hectares (24,700 acres), or 22% of the total land area, is forested. Fuel wood may be freely gathered by anyone, but it may not be bought or sold. Wood needed for building purposes is cut in rotation from a different district each year. For centuries logs have been shipped to Spain. Most reforestation is in pines.

## 26 MINING

For hundreds of years, Andorran forges were famous in northern Spain. There are still iron ore deposits in the valley of Ordino and in many of the mountain areas, but access to them is difficult. In addition to iron, small amounts of lead are still mined, and alum and building stones are extracted. The sulfurous waters of Les Escaldes are used in washing wool.

## 27 ENERGY AND POWER

The largest hydroelectric plant, at Encamp, has a capacity of 26.5 MW and provides about 40% of Andorra's electric power needs, with most of the remainder being imported from Spain. The total installed capacity in 1991 was 35,000 kW. Energy production in 1992 totaled 140 million kWh.

There are four gas companies, with Andor Gas supplying propane and the others butane.

## 28 INDUSTRY

Andorra produces cigars, cigarettes, textiles, leather, building materials, and furniture, both for local use and for export. Woolen blankets and scarves are made at Les Escaldes.

Many enterprises produce frozen foods, pastry, and other commodities. There are distilleries for the production of anisette, vermouth, liqueurs, and brandy.

Several firms manufacture woolen goods. There are a number of construction companies, the largest producing building materials from iron.

## 29 SCIENCE AND TECHNOLOGY

Students wishing to pursue scientific and technical careers usually receive their training abroad. The Andorra Scientific Society in Andorra la Vella was Founded in 1983. The National Motor Car Museum in Encamp, founded in 1988, exhibits cars, motorbikes, and bicycles dating from 1898 to 1950.

## 30 DOMESTIC TRADE

Andorra la Vella has many stores where commodities of all kinds and origins may be purchased. The larger villages have small general stores. The French, Spanish, and Andorran animal fairs that take place at Andorra la Vella, Encamp, Ordino, and elsewhere are attended by most Andorrans and by many French and Spanish farmers.

There is a high level of competition between the large department stores and the small shops. There are some 600 retail establishments in the country, of which the department and jewelry stores are the most numerous, followed by food and clothing outlets. Trade in consumer goods is very active, particularly with French and Spanish shoppers who are attracted

by the lower tax rates on purchases. Handicrafts, cigars, cigarettes, and furniture are major products manufactured for both domestic and export markets.

There are over 270 hotels and 400 restaurants catering to the thriving tourist trade.

### 31 FOREIGN TRADE

Owing to the large traffic of unaccounted goods across Andorra's borders, official statistics do not reflect the true volume of transactions. Of recorded trade, close to half is with Spain and over one-quarter with France. The majority of imports consist of consumer goods sold to visitors. Reported imports exceed recorded exports by more than 22:1.

A customs union with the EC (now the EU) took effect in 1991, allowing industrial goods to pass between Andorra and EC members under a uniform customs tariff. The EU's external tariffs are to be applied by Andorra to its trade with non-EU members.

In 2000 Andorra's imports were distributed among the following categories:

Consumer goods	45.5%
Food	16.7%
Fuels	10.1%
Industrial supplies	12.2%
Machinery	8.8%
Transportation	9.9%
Other	1.4%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Spain	27.4	489.4	-462
France	11.9	269.7	-257.8
China (inc. Hong Kong)	11.1	13.1	-2
Switzerland	0.2	20.5	-20.3
Germany	0.7	44.9	-44.2
United States	0.5	17.8	-17.3
Italy	0.2	41.4	-41.2
Belgium	0.1	6.0	-5.9
Japan	n.a.	31.4	
United Kingdom	n.a.	25.2	

### 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 1998 the purchasing power parity of Andorra's exports was \$580 million while imports totaled \$1.077 billion resulting in a trade deficit of \$497 million.

### 33 BANKING AND SECURITIES

An unofficial Convention of Banks and Bankers periodically attends to financial affairs. The banking system attracts foreign financial transactions and investments because there are no direct taxes in Andorra.

There were six private banks in 1997: Banc Internacional d'Andorra, Banca Mora, Banca Privada d'Andorra, Credit Andorra, Banc Agricol; Comercial d'Andora, and Banca Reig. About half of all deposits are made in pesetas, with one-fourth in francs and the balance in other currencies.

There is no stock exchange, and therefore, stocks and bonds are not traded in Andorra.

### 34 INSURANCE

The principal firm is the Andorra Insurance Co., established in 1951, which provides coverage that includes life, fire, accident, and plate glass. There are several other insurance companies, including Assegurances Bercia, Assegurances GAN, Assegurances Generali France, Assegurances Generals, Assegurances la

Catalana, Assegurances La Equitativa, Assegurances Layetana, Assegurances Lepanto, Assegurances Riba, Assegurances Royal Insurance, Assegurances Santamaria Cosan, Assegurances Schweiz, Atlantis Compañia d'Assegurances, CMA, Commercial Union Assegurances, Compañia Andorrana d'Assegurances, Financera d'Assegurances, Generali, Grup Assegurador Catalana Occident, Multinacional Asseguradora, Patrimoine Assegurances, Santamaria Cosan Assegurances, Unio I Aliança de Previsio, and Zurich Delegacio.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimates that in 1997 Andorra's central government took in revenues of approximately \$385 million and had expenditures of \$342 million. Overall, the government registered a surplus of approximately \$43 million.

### 36 TAXATION

There is no income tax on the individual or corporate level. Employees pay social security taxes at rates of 5-9%; employers pay 13%. As of October 1991, a value-added tax had been enacted and was expected to impose charges of 1-7% on the production and import of goods. Also scheduled for implementation under the 1992 budget law were a registration tax on certain activities, to provide 8.6% of government revenues, and a tax on electricity consumption and telephone services to contribute 1.6% of state revenues.

### 37 CUSTOMS AND DUTIES

Andorra is a member of the EU Customs Union and generally abides by the EU trade regime. However, its agricultural exports are treated as of non-EU origin and, therefore, are subject to ordinary tariffs.

### 38 FOREIGN INVESTMENT

No recent information is available about foreign investment in Andorra. Its lack of taxation has long made it a tax haven and a refuge for smugglers.

### 39 ECONOMIC DEVELOPMENT

Government policy is to encourage local industries and to promote private investment. In addition to handicrafts, manufacturing includes cigars, cigarettes, and furniture. Tourism accounts for 80% of gross domestic product (GDP), and the banking sector significantly contributes to the economy.

### 40 SOCIAL DEVELOPMENT

There is a social welfare system, introduced in 1966 for public employees and expanded in 1968 to cover the entire population. Programs include old-age, disability, and survivors' pensions, health and maternity coverage, and workers' compensation.

There is no legal discrimination against women, although they have only enjoyed full suffrage since 1970 and play only a very minimal role in the country's government. Women's rights advocates have reported that pregnant women frequently lose their jobs. There is no governmental department specifically designated to address women's issues, but in 2001 a Secretariat of State for the Family was created. Children's welfare is promoted by the government.

The constitution prohibits discrimination on the basis of birth, race, sex, origin, religion, or any other personal or social condition. Foreign nationals, primarily from Spain, France, Portugal and the United Kingdom, account for over 40% of the population. While accorded the same rights and freedoms as citizens, foreigners lack access to some of the social benefits provided by law. Recent legislation has improved living conditions for immigrant workers, but many still have only temporary work permits and face deportation if they lost their jobs.

The rights of freedom of speech, press, peaceful assembly, religion, and movement are provided by the constitution and are respected in practice.

#### 41 HEALTH

Infant mortality was estimated at 4 per 1,000 births in 1999; life expectancy was estimated at 83.5 years. The 1999 birth rate was 10.27 and the overall mortality rate was 5.5 per 1,000 people. In the same year the fertility rate was 1.25. In 1998, Andorra had 2.5 physicians, 2.8 nurses, 0.09 midwives, 0.5 dentists, and 0.9 pharmacists per 1,000 people.

#### 42 HOUSING

Most Andorran houses are made of stone. Since the flat land is used for farm crops, the rural houses are frequently backed against the mountainsides. The high villages (cortals) are situated on a line between the highest fields and the lowest limits of high-level pastures. Isolated houses (bordes) are found at higher elevations. Many families maintain temporary dwellings in the highest pasture areas. All residents have access to safe water and sanitation systems.

#### 43 EDUCATION

By law, students must attend school until age 16. Education is provided by both French- and Spanish-language schools. The French government partially subsidizes education in Andorra's French-language schools; schools in the southern section, near Spain, are supported by the church. The local language, Catalan, has been introduced at a school under the control of the Roman Catholic Church. A total of 9,024 students attended the 18 schools in Andorra in 1991. In the 1990–91 academic year, 1,861 students were enrolled at infant schools, 5,584 at primary schools and 1,579 at secondary, technical, and special schools. In the 1990s, 95% of primary-school-age children were enrolled in school, while 47% of those eligible attended secondary school.

About 50% of Andorran children attend French primary schools, and the rest attend Spanish or Andorran school. In general, Andorran schools follow the Spanish curriculum, and their diplomas are recognized by Spain.

The University of Andorra was established in July 1997. It has a small enrollment and mostly offers long-distance courses through universities in Spain and France. The majority of secondary graduates who continue their education attend schools in France or Spain. Virtually the entire adult population is literate. Andorra also has a nursing school and a school of computer science.

#### 44 LIBRARIES AND MUSEUMS

The National Library and National Archives founded in 1974 and 1975 respectively are located in Andorra la Vella; the library holds 45,000 volumes. There are five museums in the country: a regional museum in Sispony, a local general interest museum in Escaldes-Engordany, founded in 1987; a decorative arts museum in Ordino, also founded in 1987 and housed in a 17th-century house; a science and technical museum in Encomp focusing on the history of transportation; and in Andorra la Vella, a historical museum featuring stamps and postcards.

#### 45 MEDIA

Automatic telephone service was begun in 1967; in 1998, there were 32,946 main line and 14,117 mobile cellular phones. Postal and telegraph services are handled by the Spanish and French administrations; a telex system was installed in 1970.

Radio programming was broadcast over two private stations, Spanish-owned Radio Andorra and French-owned Sud-Radio, until their contracts expired in 1981. The government then established new stations, ORTA (public) and Radio Valira, operated by Andorrans and supervised by the General Council.

As of 1998, there were 15 FM radio stations. Andorra does not have its own television stations; television transmission is provided through technical accords with the Spanish and French government networks. In 1997 there were 16,000 radios and 27,000 television sets.

The two main daily papers are the independent publications of *Diari D'Andorra* (*Andorra Daily*—2002 circulation 3,000) and *El Peridico de Andorra*. *Poble Andorra* is a major weekly publication with a circulation of about 3,000. Other newspapers, with smaller circulations, are the dailies *Independent* and *Informacions Diari*, and the weeklies *Correu Andorra* and *Informacions*. French and Spanish newspapers are also widely available.

As of 2000, there was only 1 Internet Service Provider with an estimated 24,500 Internet users in 2001.

The Andorran Constitution ensures freedom of speech and press, and the Government is said to respect these rights in practice.

#### 46 ORGANIZATIONS

There are about 10 human rights associations in the country, the most active being the Association of Immigrants in Andorra (AIA), which defends the rights of foreign residents. The Association of Andorran Women (AAW) focuses on women's rights. The Red Cross is also present within the country.

The Andorra Chamber of Commerce, Industry and Services works to support commercial and economic growth in Andorra by promoting commercial and industrial instruction; collaborating with the educational government in the administration of practical training for companies; coordinating trade fairs, exhibitions, and conventions; and supporting research programs.

The Youth Council of Andorra (Area de Jovent), founded in 1988, serves as a non-governmental platform for major youth and student organizations. The General Union of Andorran Students (Agrupacio General dels Estudiants d'Andorra (AGEA), founded in 1990, is a union of university students. Other youth NGOs include: the Andorran Red Cross Youth, Andorran Catholic Student Movement, and youth associations of Andorran Kiwanis, Lions and Rotary clubs. Andorra also sponsors an organization of the Special Olympics.

#### 47 TOURISM, TRAVEL, AND RECREATION

Tourism has brought considerable prosperity to Andorra and now constitutes the principal source of income. Visitors, mostly from France and Spain, come to Andorra each summer to attend the fairs and festivals, to buy consumer items at lower prices than are obtainable in the neighboring countries, and to enjoy the pleasant weather and beautiful scenery. There is skiing at Pas de la Casa and Soldeu in winter.

Shrines and festivals are both key attractions to tourists. Romanesque churches and old houses of interest are located in Ordino, Encamp, Sant Julià de Lòria, Les Escaldes, Santa Coloma, and other villages. The best known is the shrine of Our Lady of Meritxell, Andorra's patroness, between Canillo and Encamp.

Pilgrims come from France and Spain to pay homage on 8 September, the festival day of Andorra's patroness. Each of the larger villages has its own festival during which the *sardana*, Andorra's national dance, is performed.

There is an International Music Festival each June and July, and an International Jazz Festival at Escaldes-Engordany in July. It is estimated that over 10,000 visitors enter Andorra each year.

In 2001, the US Department of State estimated the daily cost of a stay in Andorra at about \$175.

#### 48 FAMOUS ANDORRANS

There are no internationally famous Andorrans.

**49**DEPENDENCIES

Andorra has no territories or colonies.

**50**BIBLIOGRAPHY

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# ARMENIA

Republic of Armenia  
*Hayastani Hanrapetut 'Yun*

**CAPITAL:** Yerevan

**FLAG:** Three horizontal bands of red (top), blue and gold.

**ANTHEM:** *Mer Hayrenik*.

**MONETARY UNIT:** The dram (introduced 22 November 1993) is a paper currency in denominations of 10, 25, 50, 100, 200, and 500 drams. The dram (D) replaced the Armenian ruble and the Russian ruble (R). Currently D1 = \$0.0017 (or \$1 = D591.00; as of May 2003)

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** New Year, 1–2 January; Christmas, 6 January; Easter, 1–4 April; Day of Remembrance of the Victims of the Genocide, 24 April; Peace Day, 9 May; Anniversary of Declaration of First Armenian Republic (1918), 28 May; Public Holiday, 21 September; Day of Remembrance of the Victims of the Earthquake, 7 December, New Year, 31 December.

**TIME:** 4 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Armenia is a landlocked nation located in southeastern Europe/southwestern Asia. Comparatively, the area occupied by Armenia is slightly smaller than the state of Maryland with a total area of 29,800 sq km (11,506 sq mi). Armenia shares boundaries with Georgia on the N, Azerbaijan on the E and S, Iran on the S, and Turkey on the W and has a total boundary length of 1,254 km (778 mi). Armenia's capital city, Yerevan, is located in the west-central portion of the country on the Hrazdan River.

## <sup>2</sup>TOPOGRAPHY

The topography of Armenia features the high Armenian Plateau, with mountains (many peaks are above 10,000 feet), little forest land, fast flowing rivers, and the Aras River Valley, which contains good soil.

## <sup>3</sup>CLIMATE

Armenia's climate ranges from subtropical to alpine-like in the mountains. The mean temperature in midsummer is 25°C (77°F). In midwinter, the mean temperature is 0°C (32°F). Rainfall is infrequent. The capital city receives 33 cm of rain annually (13 in), though more rainfall occurs in the mountains.

## <sup>4</sup>FLORA AND FAUNA

Armenia is located in what geographers call the Aral Caspian Lowland. The country has broad sandy deserts and low grassy plateaus. The region is home to European bison, snow leopards, cheetahs, and porcupines.

## <sup>5</sup>ENVIRONMENT

In 2000, Armenia's chief environmental problems resulted from natural disasters, pollution, and warfare. A strong earthquake in 1988 resulted in 55,000 casualties. Radiation from the meltdown of the nuclear reactor facility at Chernobyl in the former Soviet Union also polluted the environment. The nation's soil has also been polluted by chemicals including DDT and the Hrazdan and Ares rivers have also been polluted. The war between Armenia

and Azerbaijan has strained the country's economy, limiting the resources that can be devoted to environmental preservation. It has also led to an energy blockade that has caused deforestation as trees are cut for firewood. Yet another environmental hazard is the restarting of the Metsamor nuclear power plant, which has been brought online without the safety systems recommended by the IAEA.

From 1990–1995, deforestation occurred at an average annual rate of 2.69%. As of 2001, 7.6% of the total land area in Armenia is protected. Also as of 2001, 4 of the nation's 84 species of mammal were endangered, as were 5 species of bird and 3 species of reptile. Endangered species include the Barbel sturgeon, Dahl's jird, and the field adder.

## <sup>6</sup>POPULATION

The population of Armenia in 2003 was estimated by the United Nations at 3,061,000, which placed it as number 130 in population among the 193 nations of the world. In that year approximately 9% of the population was over 65 years of age, with another 27% of the population under 15 years of age. There were 94 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.45%, with the projected population for the year 2015 at 2,963,000. The population density in 2002 was 127 per sq km (330 per sq mi).

It was estimated by the Population Reference Bureau that 70% of the population lived in urban areas in 2001. The capital city, Yerevan, was also the largest with a population of 1,281,000. Other urban centers include Gyumri (206,600) and Vanadzor (170,200). Most of the cities and towns are located along the river valleys in the north and west. According to the United Nations, the urban population growth rate for 2000–2005 was 0.8%.

## <sup>7</sup>MIGRATION

Independent Armenia is only a portion of historic Armenia, which at its greatest extent also included lands now in Turkey, Iran, and Azerbaijan. There are Armenian communities in these

countries and also in Russia, Georgia, Lebanon, Syria, and the US. Armenia has a net migration rate of -9.0 migrants per 1,000 population as of 2000. This numbered 300,000 people, or 7.9% of the population.

## **8 ETHNIC GROUPS**

A 2002 report indicates that Armenians comprise an estimated 95% of the population. Minority groups include the Azeri, Russians, and Yezidi Kurds. As of 1993, most of the Azeris had emigrated from Armenia.

## **9 LANGUAGES**

Armenian is spoken by some 96% of the population. Armenian belongs to an independent branch of the Indo-European linguistic family. It is a highly inflective language, with a complicated system of declensions. It is agglutinative, rich in consonants, and has no grammatical gender. The vocabulary includes many Persian loan words. There are two main dialects: East Armenian, the official language of Armenia, and West, or Turkish, Armenian. The alphabet, patterned after Persian and Greek letters, has 38 characters. Armenian literature dates from the early 5th century AD. Russian is spoken by 2% of the population; other various languages are spoken by the remaining 2%.

## **10 RELIGIONS**

In September 1991, Armenia declared its independence from the Soviet Union, of which it had been a member since 1920. Armenia was a Christian country since the 4th century AD and witnessed a resurgence of the Armenian Apostolic Church after independence. In 1991 the Law on Freedom of Conscience established the separation of church and state but granted the Armenian Apostolic Church status as the national church. A presidential decree issued in 1993 supplemented the law and strengthened the position of the Armenian Apostolic Church by empowering the Council on Religious Affairs (CRA) to investigate the activities of registered religious organizations and to ban missionaries who engage in activities contrary to their status. In 1997 amendments tightened registration requirements by raising the minimum number of adult members to qualify for registration from 50 to 200. The laws also indicate that a petitioning organization must adhere to a doctrine that is based on "historically recognized Holy Scriptures." In 2002 the president abolished the CRA and announced that a new office, attached to the Presidency, would be established to handle matters of religious.

The Armenian Apostolic Church is not subject to some of the restrictions imposed on other faiths. In particular, the 1991 law outlaws proselytizing except by the Armenian Apostolic Church and requires all other religious denominations and organizations to register with the government. In 2002, 90% of the population were nominally Armenian Apostolic.

There are small communities of Roman Catholics, Mekhitarists (Armenian Uniate), Pentecostals, Greek Orthodox, Armenian Evangelicals, Baptists, Seventh-Day Adventists, Mormons, Jews, Muslims, Baha'is, and Hare Krishnas. There is also a small Kurdish community which practices Yezidi, a faith combining elements of Zoroastrianism, Islam, and animism.

## **11 TRANSPORTATION**

As of 2002, there were 825 km (513 mi) of 1-meter-gauge railroad, not including industrial lines. An estimated 779 km (484 mi) are electrified. Supplies that arrive from Turkey by rail must be reloaded, due to a difference in rail gauges. Goods that cross Georgia or Azerbaijan are subject to travel delay from strikes and blockages and may be interdicted.

The highway system includes 11,300 km (7,022 mi) of roads, of which 10,500 km (6,525 mi) are surfaced; four-lane highways connect the major cities.

There were 12 airports in 2001, 7 of which had paved runways. The Zvartnots airport at Yerevan is fairly well maintained and receives scheduled flights from Moscow, Paris, New York, London, Amsterdam, Athens, Beirut, Dubai (UAE), Frankfurt, Istanbul, Prague, Tehran, Vienna, Zurich, and Sofia. In 2001, 369,200 passengers were carried on scheduled domestic and international flights.

Cargo shipments to landlocked Armenia are routed through ports in Georgia and Turkey.

## **12 HISTORY**

Armenian territories were first united into an empire under Tigranes the Great (95–55 BC), whose extensive lands included parts of Syria and Iraq. Defeated by the Roman general Pompey, Armenia became a client state of the Roman Empire. Rome and Sasanian Persia partitioned Armenia, and after them Byzantium and the Ummayed and Abbasid caliphates controlled parts of Armenia. Armenia adopted Christianity at the beginning of the 4th century AD. The Seljuk Turks invaded Armenia in the 11th century, followed by Genghis Khan and Timur, leading to mass emigrations. Persia and Ottoman Turkey divided Armenia into eastern and western portions in the 16th–18th centuries. Russia took over Persia's holdings in 1828, and during the latter part of the 19th century both Russia and Turkey carried out harsh repression against nationalist activities among Armenians under their sway, leading to many deaths and mass emigrations. During World War I, Ottoman Turkey carried out forced resettlement and other harsh policies against Armenians, which Armenians term their national genocide. The historical experience remains a contentious issue in Armenian-Turkish relations.

After the Bolshevik revolution in Russia in 1917, Armenia declared independence in May 1918. Armenia's population of 750,000 included as many as 300,000 who had survived flight from Turkey, and the heavy burden of independence among hostile neighbors (it clashed with Turkey, Georgia, and Azerbaijan) and an inhospitable climate may have led to as many as 150,000 deaths from famine and disease. Although the August 1920 Treaty of Sevres accorded international recognition of Armenian independence, the Russian Red Army conquered Armenia in November 1920. In 1922, Armenia was named part of a Transcaucasian Soviet Federated Socialist Republic, which encompassed lands now in Armenia, Azerbaijan, and Georgia, but it became a separate union republic in 1936. During the 1920s, Moscow drew internal borders in the Caucasus, which resulted in Nagorno-Karabakh (NK), then a mostly ethnic Armenian region, being incorporated into Azerbaijan, separated from the rest of Soviet Armenia by a few miles of Azerbaijani territory. NK was given the status of an "autonomous republic."

Following a February 1988 call by the Nagorno Karabakh (NK) legislature for unification with Armenia, the Armenian Supreme Soviet in December 1989 declared that NK, a largely ethnically Armenian-populated enclave within Azerbaijan, was part of Armenia. It also proclaimed Armenia's sovereignty over its land and resources. A popular referendum on independence was held in Armenia on 21 September 1991, in which 94% of the eligible population reportedly participated and which was approved by 99%. The Armenian legislature declared Armenia's independence two days later. Armenia received worldwide diplomatic recognition upon the collapse of the Soviet Union in December 1991.

Beginning in 1988, conflict engulfed NK, with Azerbaijan resisting the secession or independence of its enclave. Casualties were estimated at over 5,000. Emigration of 350,000 Armenians residing in Azerbaijan and over one million Azerbaijani residing in Armenia or NK followed pogroms in both states and conflict in NK and surrounding areas. In December 1991, a referendum in NK (boycotted by local Azerbaijani) approved NK's independence and a Supreme Soviet was elected, which on 6 January 1992, declared NK's independence and futilely appealed



LOCATION: 40°0' N to 45°0' E BOUNDARY LENGTHS: Total boundary lengths, 1,254 kilometers (780 miles); Azerbaijan (east), 566 kilometers (352 miles); Azerbaijan (south), 221 kilometers (137 miles); Georgia, 164 kilometers (102 miles); Iran, 35 kilometers (22 miles); Turkey, 268 kilometers (167 miles).

for world recognition. In 1993, Armenian forces gained control over NK and surrounding areas, occupying over 20% of Azerbaijani territory, which they continued to hold despite an Azerbaijani offensive in 1993–1994 that reportedly cost 6,000 Azeri casualties. A cease-fire has held fitfully since May 1994, but talks on a political settlement remain inconclusive. In the six-year period of conflict from 1988 to 1994, more than 35,000 people were killed and nearly one million have been left homeless.

In November 1989, Levon Ter-Petrosyan became a leader of the Armenian National Movement (ANM), which grew out of the Karabakh Committee to push for Armenia's independence, and its chairman in March 1990. ANM and other nationalist deputies cooperated to elect him chairman of the Armenian Supreme Soviet in August 1990, inflicting a serious blow on the Armenian Communist Party. Following Armenia's declaration of independence, presidential elections were held on 16 October 1991. Ter-Petrosyan was supported by the ANM, winning 83% of the vote against six other candidates, including internationally famous dissident Paruir Hairikian of the Association for National

Self-Determination and Sos Sarkisyan of the Armenian Revolutionary Federation (ARF; called Dashnaksutyun in Armenian, meaning "federation"). Ter-Petrosyan was sworn into office on 11 November 1991, for a five-year term. His suspension of the activities of Armenian Revolutionary Federation party in December 1994 and a trial of its leaders raised concerns among some observers about possible setbacks to democratization.

Elections to Armenia's unicameral 190-member National Assembly (legislature) were held in June 1995, at the same time as a referendum in which Armenian voters adopted the country's first post-Communist new constitution. International observers reported many campaign and voting irregularities. Observers from the Organization for Security and Cooperation in Europe (OSCE) judged the elections "free but not fair," in part because the main opposition party, the ARF, was banned from participation, the government dominated campaigning, the CEC appeared heavily pro-government in its decisions, and security officers constituted a chilling presence in many voting places. Voting irregularities reported on election day by the international observers included the violation of secret voting and pressure in voting places to cast a ballot for certain parties or candidates. In all, the Republic Bloc and other pro-government parties won 166 out of 190 seats, while the opposition won only 18 and independents four (two seats were undecided).

Ter-Petrosyan won reelection as president on 22 September 1996, by garnering 51.75% of the vote, a far smaller majority than in 1991, barely avoiding runoff balloting. Ter-Petrosyan's main opponent in the presidential race was Vazgen Manukian, head of the National Democratic Union (NDU) party. He garnered 41.3% of the presidential vote. Manukian had worked closely with Ter-Petrosyan in the Karabakh Committee. Following the presidential election, followers of Manukian's electoral coalition demonstrated against what they and many international observers termed irregular voting procedures. On 25 September 1996, tens of thousands of protesters stormed the legislative building in Yerevan and assaulted the legislative speaker and deputy speaker, both belonging to the ANM. The crowd was dispersed by police with few injuries or deaths.

In March 1997, in an attempt to garner greater public support for his regime, Ter-Petrosyan appointed a highly popular war hero of the NK conflict, Robert Kocharian, to the post of prime minister of Armenia. Ter-Petrosyan and others viewed Kocharian as having the leadership abilities necessary to help revive the slumping economy and to increase tax collection. In accepting the prime ministership, Kocharian resigned as president of NK.

Ter-Petrosyan announced in September 1997 that he had accepted an Organization for Security and Cooperation in Europe (OSCE) peace plan as a basis for resolving the NK conflict that would require "compromises" from Armenia. The two-stage plan called for NK Armenians to withdraw from most territories they had occupied outside of NK and for international peacekeepers to be deployed, followed by discussion of NK's status. The announcement brought open criticism from Kocharian and other Armenian and NK officials. On 1 February 1998, Yerkrapah, a legislative faction and militia group composed of veterans of the NK conflict, and headed by the country's defense minister, called for Ter-Petrosyan to resign. Many members of Ter-Petrosyan's ANM legislative faction defected, leading to the resignation of the parliamentary speaker. Heated debate in the legislature culminated with Ter-Petrosyan's resignation on 3 February 1998. Ter-Petrosyan denounced the "bodies of power" for demanding his resignation, referring obliquely to Kocharian, Defense Minister Vazgen Sarkisyan, and Minister of the Interior and National Security Serzh Sarkisyan. Although the constitution called for the legislative speaker to assume the duties of acting president pending an election, the resignation of the speaker caused these duties to devolved upon

Prime Minister Kocharian. A special presidential election was scheduled for 16 March 1998.

Twelve candidates succeeded in registering for the March presidential election. The main contenders were Kocharian, Vazgen Manukyan (who had run against Ter-Petrosyan in 1996 and was head of the National Democratic Union), and Karen Demirchyan (head of the Armenian Communist Party from 1974 to 1988). Since none of the candidates won the required “50% plus one” of the 1.46 million votes cast (in a 64% turnout), a runoff election was held on 30 March. In the runoff, acting President and Prime Minister Kocharian received 59.5% of 1.57 million votes cast (in a 68.5% turnout). The OSCE concluded that “this election showed improvement in some respects over the 1996 election,” but did “not meet OSCE standards to which Armenia has committed itself.” Observers alleged ballot box stuffing, discrepancies in vote counting, and fraud perpetrated by local authorities that inflated the number of votes for Kocharian. Nevertheless, he was inaugurated on 9 April 1998. The legislature selected Demirchyan as its speaker on 10 June.

On 27 October 1999, gunmen entered the legislature and opened fire on deputies and officials, killing Prime Minister Vazgen Sarkisyan and Speaker Karen Demirchyan, two deputy speakers, and four others. The purported leader of the gunmen claimed they were targeting the prime minister and were launching a coup to “restore democracy” and end poverty, and took dozens hostage. President Robert Kocharian rushed to the legislature and helped negotiate the release of the hostages, promising the gunmen a fair trial. The killings appeared the product of personal and clan grievances. Abiding by the constitution, the legislature met on 2 November and appointed Armen Khachatryan (a member of the majority Unity bloc) as speaker, and Kocharian named Sarkisyan’s brother Aram the new prime minister the next day, seeking to preserve political balances. Political infighting intensified. The military prosecutor investigating the assassinations detained a presidential aide, appearing to implicate Kocharian in the assassinations. The Unity and Stability factions in the legislature also threatened to impeach Kocharian in April 2000. Seeking to counter challenges to his power, Kocharian in May 2000 fired his prime minister and defense minister. In October 2001, on the second anniversary of the shootings in parliament, thousands of protesters staged demonstrations in Yerevan to demand Kocharian’s resignation. As of February 2003, the assassination trial continued.

Although Armenia has the highest economic growth rate of any country in the former Soviet Union, more than 50% of the population lives in poverty. Unemployment and emigration remain problems, and Armenia is under a trade blockade from Turkey and Azerbaijan over the dispute in Nagorno-Karabakh—goods are transported only through Georgia. However, US and European companies interested in tapping oil and gas reserves in the Caspian Sea have been planning the construction of a pipeline through the Caucasus to Turkey. In September 2001, Russian President Vladimir Putin visited Armenia, the first Russian president to do so since independence. Armenia and Russia negotiated a 10-year economic cooperation package, and an agreement was reached on expanding a Russian military base in Armenia.

Presidential elections were held on 19 February 2003, with no candidate receiving 50% of the votes; a runoff election was scheduled for 5 March. Kocharian took 48.3% of the first-round vote, with Stepan Demirchyan—son of Karen Demirchyan, the former parliamentary speaker assassinated in 1999—taking 27.4% of the vote. Artashes Geghamian came in third with 16.9%. The opposition called the election fraudulent and said it would not recognize the vote, and observers from the Organization for Security and Cooperation in Europe (OSCE) declared the election “flawed.” Stuffing of ballot boxes allegedly took place, although many ballots were cast in transparent boxes,

in an attempt to have a fair vote. Also, Kocharian received five times as much television coverage as all of his opponents combined.

### 13 GOVERNMENT

Armenia adopted its post-Soviet constitution by public referendum on 5 July 1995 by 68% of the voters. A commission headed by Ter-Petrosyan had drawn up the draft constitution. It provides for a strong presidential system of government with a weak legislative system, granting the president power to appoint and remove the prime minister, judges, and prosecutors. It also gives him liberal grounds for dissolving the legislature, declaring martial law, and limiting human rights by declaring a state of emergency. The president serves a 5-year term. The prime minister is nominated by the president and is subject to legislative approval. The prime minister with presidential and legislative approval appoints the Cabinet of Ministers. As of 2003, the unicameral National Assembly had 131 members, who serve 4-year terms.

### 14 POLITICAL PARTIES

Armenia held elections to a new single-chamber 131-seat legislature on 30 May 1999, with 75 deputies elected by single-member constituencies and 56 elected by party lists. Twenty-one parties and blocs fielded candidates on the party list vote, but only six passed a 5% vote hurdle. The Unity bloc garnered 42% of over two million votes cast, gaining 29 seats, followed by the Communist Party of Armenia with about 12% of the vote. In constituency balloting, the Unity Bloc (which included the country’s two largest parties, the People’s Party and the Republican Party) garnered the most seats (35), followed by non-party-affiliated candidates (29). Other major parties that received at least 7% of the party list vote in the 1999 legislative race include the National Democratic Union, Armenian Revolutionary Federation-Dashnaksutyun, Law-Governed Country Party, Communist Party of Armenia, the Armenian Pan-National Movement, Law and Unity bloc, and the Mission Party. The other registered parties included both those newly created for the legislative race and more traditional parties. They were the Mighty Motherland, Homeland bloc, Ramkavar Azatakan Party (Liberal Democratic Party), Freedom Party, Democratic Party of Armenia, Union of Socialist Forces and Intelligentsia bloc, Union of Communist and Socialist Parties, Youth Party of Armenia, Decent Future, National State Party, Free Hayk Mission Party, Shamiram Party, and ONS+ bloc (the National Self-Determination and Homeland-Diaspora). The next parliamentary elections are scheduled for spring 2003.

### 15 LOCAL GOVERNMENT

The regional governmental structure is closely modeled after the national structure. The president appoints governors to Armenia’s 11 provinces (*marzer*), including the mayor of the capital of Yerevan, which has the status of a *marz*. Each province has both executive and legislative bodies that control the provincial budget and businesses within the region. Regional governments do not have authority to pass laws independent of national legislation. *Marzer* are divided into rural and urban communities (*hamainkner*), and Yerevan is divided into 12 districts. The communities and Yerevan districts are governed by community chiefs and legislative bodies called councils of elders (*avakani*). In the cities, community chiefs hold the title of mayor. In 1997 a law on self-government was passed calling for decentralization in some areas and some fiscal independence for local governments. Elections for mayors, community chiefs, and local councils in 654 constituencies were held 20 October 2002, with a 46% voter turnout rate (an increase of close to 20% from the turnout in 1999). Local elections are held every three years. There were fewer complaints of electoral irregularities than in



previous elections. The ruling Republican Party fielded the most candidates, and 18 other parties, in addition to independents, participated. The Law-Governed Country Party came in second, and the Armenian Revolutionary Federation was third.

## 16 JUDICIAL SYSTEM

The constitution provides for an independent judiciary, but in practice courts are vulnerable to pressure from the government, though legal reforms are resulting in some changes. The court system consists of district courts of first instance, an Appeals Court, and a Court of Cassation. Judges for the local courts of first instance and the Court of Appeals began operating under a new judicial system in January 1999. Judges were selected for their posts based on examinations and interviews by the Minister of Justice, approval of a list of nominees by the Council of Justice, and approval by the president. Unless they are removed for malfeasance, they serve for life. About one-half of Soviet-era judges have been replaced. Prosecutors and defense attorneys also began retraining and recertification. A military bureaucracy continues to follow Soviet-era practices.

A Constitutional Court has the power to review the constitutionality of legislation, approves international agreements, and settles electoral disputes. Its effectiveness is limited. It only accepts cases referred by the president, two-thirds of the members of the legislature, or election-related cases brought by candidates in legislative or presidential races. The president appoints four of the nine judges of the Constitutional Court.

The constitution establishes a Council of Justice, headed by the president and including the prosecutor general, the minister of justice, and fourteen other members appointed by the president. The Council appoints and disciplines judges in courts of first instance and the Court of Appeals. A Council of Court Chairs has been created to reduce the power of the Ministry of Justice and increase the independence of the judicial system. It is responsible for financial and budgetary issues involving the courts, and consists of twenty-one senior judges.

The courts still apply the Soviet criminal code, though a new criminal code is planned to be implemented. Under this system, prosecutors have dominant authority to arrest, investigate and prosecute. A new criminal procedure code entered into force in January 1999 that specifies that a suspect may be detained for no more than twelve months pending trial, has the right to an attorney, right to a public trial and to confront witnesses, and the right to appeal.

## 17 ARMED FORCES

The active armed forces numbered 44,610 in 2002. There were 38,900 personnel in the army, organized into five corps, one rifle brigade, and two artillery regiments. Equipment included 110 main battle tanks. The Air and Defense Aviation Forces numbered 3,160 personnel with 8 combat aircraft and 13 armed helicopters. Paramilitary forces numbered 1,000. Military expenditures for 2001 were \$135 million, or 6.5% of GDP.

## 18 INTERNATIONAL COOPERATION

Armenia was admitted to the UN on 2 March 1992. The country is also a member of ESCAP, FAO, IAEA, ICAO, IFAD, ILO, OSCE, IMF, UNCTAD, UNESCO, UNIDO, WIPO, and WHO. Armenia is applying for membership in other international organizations. It is a member of the CIS, and on 5 February 2003 became a full member of the WTO. The United States recognized Armenia's independence from the former Soviet Union 25 December 1991. President George Bush stated that day the country meets the US's criteria regarding democracy, respect for human rights, and stability. A US embassy opened in the capital in February 1992.

## 19 ECONOMY

As part of the Soviet Union, the Armenian economy featured large-scale agroindustrial enterprises and a substantial industrial sector that supplied machine tools, textiles and other manufactured goods to other parts of the USSR in exchange for raw materials. Trade with its neighbors, on which resource-poor Armenia relies heavily, was jeopardized by the outbreak of conflict over the Nagorno-Karabakh enclave in 1988, and by political instability in Georgia and Azerbaijan. Also, in December 1988, a severe earthquake did considerable damage to Armenia's productive capacity, aggravating its regional trade deficit. The physical damage had not been repaired when the economy suffered the implosion that accompanied the break-up of the Soviet Union in 1991. With independence, as real GDP fell 60% from 1992-93, small-scale agriculture came to dominate in place of the former agroindustrial complexes, with crops of grain, sugar beets, potatoes, and other vegetables, as well as grapes and other fruit. Growth was not registered until 1994, at 5%, when, in July, a ceasefire was signed by Armenia, Azerbaijan and Nagorno-Karabakh, and, in December, the government embarked on a comprehensive IMF-monitored program of macroeconomic stabilization and structural reform. By 1996, growth was in double digits and inflation in single digits, although set-backs which began in late 1996 reduced real GDP growth to 3% in 1997, while inflation resurged to 27%. In 1998, real growth reached 7.3% while inflation fell to a single digit 8.7%, despite the negative impacts of the Russian financial crisis and a continuing Azerbaijan-led economic blockade over the unresolved Nagorno-Karabakh issue. Growth in the first nine months of 1999 was at an annual rate of 6%, but this was reduced to 3% for the year in the disruptions following the hostage-takings and assassinations of the prime minister and parliamentary speaker in October, a stated motive for which was the large proportion of Armenians living in poverty (at 55% in 2001 by CIA estimates). Inflation was held to 0.7% in the crisis, due to policy changes that have continued to keep inflation at a low level. Moderate GDP growth of 6% was achieved in 2000 while prices, as measured by the consumer price index, actually declined an estimated 0.8%. In 2001, targeted real growth under the IMF-guided program was 6% but actual growth was about 10% (CIA est.) as the effects of economic reforms, the privatization of small and medium-sized enterprises, and increased foreign investment began to impact performance. IMF and CIA estimates for 2002 were for real growth between 12.5% and 12.9%, with stable price levels. Barring major disruptions (only too likely as the war in Iraq, launched 19 March 2003, added another source of instability to the region), Armenia was expected to attain its pre-independence level of per-capita income by 2005. Growth sectors include telecommunications, assembly of electric and electronic appliances, agriculture and food processing, energy generation and distribution, construction, coal and gold mining, and international air communications.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Armenia's gross domestic product (GDP) was estimated at \$11.2 billion. The per capita GDP was estimated at \$3,350. The annual growth rate of GDP was estimated at 9.6%. The average inflation rate in 2000 was 3.1%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 29% of GDP, industry 32%, and services 39%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$9.31 million or about \$4 per capita and accounted for approximately 0.8% of GDP. Worker

remittances in 2001 totaled \$10.16 million. Foreign aid receipts amounted to about \$56 per capita and accounted for approximately 10% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$1,132. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 10%. Approximately 52% of household consumption was spent on food, 18% on fuel, 3% on health care, and 15% on education. The richest 10% of the population accounted for approximately 35.2% of household consumption and the poorest 10% approximately 2.3%. It was estimated that in 2001 about 55% of the population had incomes below the poverty line.

## 21 LABOR

As of 2001, Armenia's labor force numbered approximately 1.4 million. In 2000, 42% were involved in industry and construction; 44% in forestry and in agriculture, and 14% in services and other sectors. The unemployment rate was estimated at 20% in 2001.

Legislation passed in 1992 guarantees workers the right to bargain and organize collectively. An independent labor federation was created in 1997. However, organized labor remained weak as of 2002, because of high unemployment and a slow economy. Collective bargaining does not occur because most large employers are still under state control.

Armenians are guaranteed a minimum wage which was set at \$9.00 per month as of 2002. The standard legal workweek was 40 hours. Children under the age of 16 are prohibited by law from full-time labor. Due to the dire economic situation, none of these legal standards are relevant. The government promulgates minimum occupational health and safety standards. However, a lack of government resources and general worker insecurity prevent any effective enforcement.

## 22 AGRICULTURE

Before the collapse of the Soviet Union, about 16% of Armenia's land was cultivated. As of 1998, there were an estimated 559,000 ha (1,381,000 acres) of arable cropland (20% of the total land area), of which 65,000 ha (2,161,000 acres) were planted with permanent crops. Agriculture engaged about 13.2% of the economically active population in 1999. That year, agricultural production was only 80% of what it had been during 1989-91.

Production for 1999 included vegetables and melons, 457,000 tons; potatoes, 425,000 tons; wheat, 220,000 tons; and grapes, 106,000 tons. In 1998, there were some 17,500 tractors and 2,500 harvester-threshers in service.

## 23 ANIMAL HUSBANDRY

Over one-fifth of the total land area is permanent pastureland. In 1999, the livestock population included: sheep, 575,000; cattle, 512,000; pigs, 57,000; goats, 13,000; and horses, 12,000. There were also some three million chickens. In 1999, some 51,000 tons of meat were produced, including 35,000 tons of beef and veal, 5,000 tons of mutton and lamb, 5,000 tons of poultry, and 6,000 tons of pork. In 1999, 452,000 tons of milk, 18,000 tons of eggs, 10,000 tons of cheese, and 1,000 tons of greasy wool were also produced. Meat, milk, and butter are the chief agricultural imports.

## 24 FISHING

Fishing is limited to the Arpa River and Lake Sevan. Commercial fishing is not a significant part of the economy. The total catch in 2000 was about 1,105 tons. Carp and whitefish are the principal species.

## 25 FORESTRY

Forests covered an estimated 12.4% of Armenia in 2000. Soviet mismanagement, the 1988 earthquake, hostilities with Azerbaijan, and fuel shortages have impaired development. Available timber is used for firewood during the harsh winters. Imports of forestry products totaled \$14.4 million in 2000.

## 26 MINING

Mineral resources in Armenia are concentrated in the southern region, where several operating copper and molybdenum mines were located. Armenia had been mining one-third of the former Soviet Union's (FSU) output of molybdenum (6,044 tons in 2000, up from 1,800 in 1997). Copper mines were located at Kapan, Kadzharan, Agarak, Shamlugh, and Akht'ala; the latter two were not in operation in 2000. Kadzharan and Agarak also had molybdenum mines. Despite relative proximity to rail and port facilities that supplied European markets, the mineral sector's ability to compete on the world market was inhibited by infrastructure problems. Perlite was mined southeast of Yerevan; Armenia was the FSU's largest perlite producer in 2000, producing 35,000 tons.

In 2000, Armenia produced industrial minerals such as clays, diatomite, dimension stone, limestone (1.7 million tons), salt (30,000 tons), and semiprecious stones. It mined copper (14,000 tons copper concentrate), copper-zinc, and native gold deposits. The Zod and Megradzor gold mines ceased operations in 1997. The government hoped to revive the gold industry through the recovery of gold tailings at the Cuarat gold mill. Significant byproduct constituents in the nonferrous ores in 2000 included barite, gold (estimated 400 kg, down from 2,000 in 1991), lead, rhenium, selenium, silver (1,300 kg), tellurium, and zinc.

Armenia reported a 66% increase in mining and metallurgical output between 1994 and 1995, reversing the trend in which production of all mineral commodities had fallen since the 1991 breakup of the Soviet Union. The rise in mineral production was partly attributed to shipments from Iran of chemicals necessary to produce copper and molybdenum concentrates. In 1996, minerals and mineral products were Armenia's main export commodities. In 1995, the country started attracting foreign investment in its mineral industry by collecting open bids for the rights to mine 33 deposits, including deposits of gold; ferrous and non-ferrous metals; perlite; semiprecious, decorative, and facing stones; tuffs; and zeolite.

## 27 ENERGY AND POWER

With only negligible reserves of oil, natural gas, and coal, and with no production, Armenia is heavily reliant on foreign imports. Following the breakup of the Soviet Union, oil consumption has declined from 48,400 barrels per day in 1992 to 4,000 barrels per day in 2001. Natural gas consumption in 2000 was 1.4 billion cu m (49 billion cu ft). Total electrical consumption in 2000 was 4.9 billion kWh.

Net electricity generation in 2000 totaled 6.2 billion kWh, primarily from the reopened Medzamor nuclear plant at Yerevan (815,000 kW capacity), the Hrazdan (near Akhta) oil/natural gas plant (1,110,000 kW capacity), the Yerevan heat/power plant (550,000 kW capacity), and the Sevan-Hrazdan hydroelectric plant and smaller plants (925,000 kW capacity). Of total electricity generated in 2000, roughly 31% came from hydroelectric plants, 32% from nuclear power, and 36% from thermal power. Total installed capacity in 2001 was 2.7 million kW. The Medzama plant, reopened in 1995, increased electricity generation by 40% and has enabled electricity to be supplied around the clock for the first time in years. However, the Armenian government has promised to decommission the plant by 2004 to save money on maintenance if enough alternative power sources can be found by that time. As of 2002 three major

and 38 smaller hydroelectric projects were planned, at a total cost of \$300 million, with backing by the World Bank.

As of 1999, the domestic distribution grid for electric power was scheduled for restructuring and privatization, with assistance from the World Bank and the US Agency for International Development (USAID). A December 1988 earthquake disrupted the Yerevan nuclear power plant, creating almost total dependence on imported oil and natural gas for power. When ethnic hostilities with Azerbaijan again resurfaced in 1992, Azerbaijan discontinued service of its pipeline to Armenia (with natural gas from Turkmenistan). The only other supply routes passed either through Turkey (which was sympathetic to Azerbaijan) or through Georgia (which was dealing with its own civil chaos). Since the 1994 cease-fire with Azerbaijan, the revival of energy supplies has helped start the recovery of Armenia's economy. If Armenia and Azerbaijan ever resolve their disputes, the transit of oil and gas from the Caspian Sea region abroad will become possible.

## 28 INDUSTRY

Before the earthquake in 1988, Armenia exported trucks, tires, electronics and instruments to other republics. A number of these plants were destroyed by the earthquake. Armenia was also a major producer of chemical products, some 59% of which were exported to other republics. Armenia has the highest number of specialists with higher education and second highest number of scientists of all the former Soviet republics. Since the collapse of the Soviet Union, industrial production has been severely disrupted by political instability and shortages of power. Much of Armenia's industry is idle or operating at a fraction of its capacity.

Economic blockades by Turkey and Azerbaijan as part of the continuing dispute over Nagorno-Karabakh have cut Armenia off from an old direct gas pipeline from Azerbaijan, as well as precluded it from participation in any of the east-west pipelines being built in the post-Soviet era. The alternative Armenia has pursued is a gas pipeline from Iran delivering Turkmenistan gas (to avoid sanctions on customers of Iran, which were renewed by the US Congress in August 2001). Intergovernmental agreements on the project were signed in 1992 and 1995. In December 1997 the Korpezehe-Kurt-Kwi pipeline feeding Turkmen natural gas directly into the Iranian system was opened. In December 2001 agreement was reached on a route that bypassed the Azeri exclave of Nakhichevan, running from Kadzharan to the southern border at Megri. Work on the Armenian section of the Iran-Armenian gas pipeline was to have begun in 2002 but was delayed until 2003 by disputes over the price Iran was intending to charge.

Light industry dominates Armenia's industrial sector and is striking for its diversity. The leading industries in 2002 included metal-cutting machine tools, forging-pressing machines, electric motors, tires, knitted wear, hosiery, shoes, silk fabric, chemicals, trucks, instruments, microelectronics, gem cutting (in 2002, 53 diamond-polishing companies exported \$150 million worth of diamonds), jewelry manufacture (up 200% in 2002), software development, food processing and brandy. Most of the country's small and medium-sized enterprises have been privatized, spurring the recovery of industrial growth.

Progress has been slower with larger industries often due to the lack of viable bidders. About 70% of the larger operations had been privatized by 1998, the year Armenia passed legislation for the sale of the country's electricity transmission and distribution networks, retaining government control over power generation. To support the privatization, the European Bank for Reconstruction and Development (EBRD) bought a 20% share in each of Armenia's four distribution companies in an agreement preserving the government's right to buy back the shares should the agreement be abrogated. In 2002, after two failed offerings,

management of the electricity distribution network was won by Daewoo Engineering. In 2001, Armenia reached a debt-to-equity agreement with Russia to exchange the debt it owed Russia—at almost \$100 million and requiring about \$20 million a year to service, the largest and only nonconcessional part of Armenia's external debt—for five non-performing state-run enterprises. The centerpiece was the Hrazdan Thermal Power Plant, valued at about \$100 million, but also including the "Mars" Electronics Factory established in 1986 for making robots, and three research institutes which had been part of the USSR's military-industrial complex. Under the debt for property agreement the Russian government will turn the operations over to private entrepreneurs.

Armenia has the highest number of cooperatives (per capita) in the Commonwealth of Independent States. By CIA estimates for 2000, industry accounted for 32% of GDP, but employed about 42% of the labor force. In 2002, with 12.5% overall GDP growth, industry grew 16%, including a 42% growth in construction. The country is projecting growth along with partnership opportunities in areas such as power generation, aviation, construction, electronics, apparel, tourism, food processing, industrial property acquisition, banking, and other areas.

## 29 SCIENCE AND TECHNOLOGY

The Armenian National Academy of Sciences, founded in 1943 and headquartered in Yerevan, has departments of physical, mathematical, and technological sciences; and natural sciences; and 32 research institutes in fields such as agriculture; biological, mathematical, physical, and earth sciences; and technology. Yerevan State University (founded in 1919) has faculties of mechanics, mathematics, physics, radiophysics, chemistry, biology, geology, geography, and mathematical cybernetics and automatic analysis. Also in Yerevan are the State Engineering University of Armenia (founded in 1930), the Yerevan State Medical University (founded in 1922), the Yerevan Zootechnical and Veterinary Institute (founded in 1929), and the Armenian Scientific and Technical Library. In 1987-97, science and engineering students accounted for 29% of college and university enrollments. In the same period, there were 1,485 scientists and 177 technicians per one million people engaged in research and development.

## 30 DOMESTIC TRADE

As of 1999, there were about 23,128 wholesale and retail companies registered in Armenia, accounting for over 54% of the total registered businesses. The main retail center is in Yerevan. A majority of retail establishments are small food and specialty item shops. Many of these work with wholesalers and sell items on a consignment basis. There are also large open markets in Yerevan and other cities offering a wide variety of food, clothing, housewares, and electronics.

Beginning in 1996, the government launched a major privatization drive. By 1999, over 80% of small businesses and over 60% of medium and large corporations were in private hands. Nearly all farmland is privately owned. Seasonal open-air food markets are also popular. Some of these markets still engage in bartering.

## 31 FOREIGN TRADE

Armenia's main trading partners are Belgium, Russia, the US, Iran, Switzerland, Israel, Georgia, the UK, the UAE, and the EU. Exports include gold and diamonds, aluminum, transport equipment, electrical equipment, and scrap metal. Imports include grain and other foods, fuel and energy. Inter-republic trade has suffered as a result of border hostilities, particularly the ongoing conflict over the Armenian enclave of Nagorno-Karabakh in Azerbaijan, which may prevent the proposed

Caspian Sea oil pipeline from passing through Armenia. As of 2003, recent talks between the leaders of Armenia and Azerbaijan represented a positive step toward resolving the dispute.

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Belgium	75	84	-9
Russia	41	126	-85
United States	37	103	-66
Iran	30	73	-43
Switzerland	20	25	-5
Israel	17	19	-2
Georgia	16	19	-3
Germany	13	35	-22
United Kingdom	10	59	-49
United Arab Emirates	5	39	-34

### 32 BALANCE OF PAYMENTS

Although the government is working to reduce Armenia's large trade deficits by improving export performance, the conflict over the Armenian enclave of Nagorno-Karabakh in Azerbaijan continues to weaken the economy by disrupting normal trade and supply links. Armenia receives large amounts of humanitarian assistance.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Armenia's exports was \$338.5 million while imports totaled \$868.6 million resulting in a trade deficit of \$530.1 million.

The International Monetary Fund (IMF) reports that in 2001 Armenia had exports of goods totaling \$353 million and imports totaling \$773 million. The services credit totaled \$187 million and debit \$204 million. The following table summarizes Armenia's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-201</b>
Balance on goods	-420
Balance on services	-18
Balance on income	64
Current transfers	174
<b>Capital Account</b>	<b>30</b>
<b>Financial Account</b>	<b>177</b>
Direct investment abroad	...
Direct investment in Armenia	70
Portfolio investment assets	-6
Portfolio investment liabilities	-0
Other investment assets	-18
Other investment liabilities	131
<b>Net Errors and Omissions</b>	<b>12</b>
<b>Reserves and Related Items</b>	<b>-19</b>

### 33 BANKING AND SECURITIES

The Central Bank of Armenia is charged with regulating the money supply, circulating currency, and regulating the commercial banks of the country. Commercial banks in Armenia include the Ardshinbank, Armagrobank, Armeconombank, Armimplexbank, Arminvestbank, Bank Armcommunication, Bank "Capital," Bank "Haykap," Central Bank of Armenia, Commercial Bank "Ardana," Commercial Bank Anelik, "Gladzor" Joint Stock Commercial Bank, Masis Commercial Bank, and the State Specialized Savings Bank of the Republic of Armenia. Leading foreign banks include: Mellat Bank (Iran) and Midland Armenia (UK).

The IMF has been concerned about the direction of policy taken by the National Bank of Armenia and the slow pace of financial reform. Armenia's financial sector is overbanked and beset with non-performing credits, mainly to large state enterprises. Armenia has been a model reforming country among the former Soviet republics, and multilateral creditors are worried

that public pressure may now force the government to loosen monetary and fiscal policies.

It was revealed in January 1997 that the central bank's credits to finance the government's budget gap has surpassed their \$100 million limit in the first ten months of 1996. The bank has been forced to intervene in the domestic markets, selling foreign exchange reserves to maintain the stability of the dram. The dram has lost some 14% in value since September 1996, when it stood at D412:\$1. By the end of June 1997 the rate had gone down to almost D500:\$1. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$141.6 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$310.3 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 19.4%.

There are three stock exchanges in Armenia the largest of which is the Yerevan Stock Exchange which listed 91 companies in 1999 and had total capitalization of \$17 million. The next largest is the "Adamand" Yerevan Commodity and Stock Exchange which listed 45 companies.

### 34 INSURANCE

Insurance is largely controlled by government organizations inherited from the Soviet system, although private insurance companies are not unknown.

### 35 PUBLIC FINANCE

In 1994, the government began a three-year effort to privatize the national industries. Loans from the IMF, World Bank, EBRD, and other financial institutions and foreign countries aimed at eliminating the government's budget deficit. However, by 1996, external public debt exceeded \$353 million with annual debt service payments exceeding \$55 million. Loans to Armenia since 1993 total over \$800 million.

The US Central Intelligence Agency (CIA) estimates that in 2001 Armenia's central government took in revenues of approximately \$358 million and had expenditures of \$458 million. Overall, the government registered a deficit of approximately \$100 million. External debt totaled \$839 million.

### 36 TAXATION

Armenia's complex tax system was revised in 1997 and again in 2001. The top corporate profit tax rate was lowered from 30% to 20%. As of 1 July 2001 a single rate was applied to all taxable profits, defined as the difference between revenues and the sum of wages, amortization payments, raw and intermediate purchases, social security contributions, insurance fees, and interest expenses. Newly formed enterprises are exempt from taxes for the first two years, but there is no provision for carrying forward losses.

Individual income taxes are withheld by enterprises and are paid to the Ministry of Finance monthly. The personal income tax has been reduced from three bands to two: 10% for monthly taxable income up to D80,000 (\$144) and 20% plus a payment of D8,000 (\$14.40) for taxable income between D120,000 and D320,000 (\$1,892) for monthly taxable income above D80,000. Armenians also pay taxes to social security and pension funds. In 1992, Armenia introduced a value-added tax which stood at 20% in 2003. Excise taxes are applied to diesel fuel, oil, spirits, wine and beer at various rates. There are also land taxes and a property taxes. Achieving a higher level of tax collection has been an important part of Armenia's economic reform programs. The fiscal deficit was projected at 2.4% of GDP for 2003.

### 37 CUSTOMS AND DUTIES

All exports are duty-free. Minor customs duties (up to 10%) are imposed on certain imports. Imports of machinery and

equipment for use in manufacturing by enterprises with foreign investment are exempt from all customs duties.

### 38 FOREIGN INVESTMENT

Armenia's investment climate is regulated by the bilateral investment treaty (BIT) signed with the United States on 23 September 1992 and by the law on foreign investment adopted by Armenia on 31 July 1994. Armenia has also concluded BITs on investment and investment protection with 15 other countries: Georgia, Turkmenistan, Kyrgyzstan, Ukraine, Iran, Egypt, Romania, Cyprus, Greece, France, Germany, Canada, Argentina, China, and Vietnam. Its investment policy is geared to attract foreign investment, with foreign investors accorded national treatment and any sector open to investment. As of 2003, under the law of profit tax, two-year tax holidays are accorded foreign investors whose equity investment in a resident company is at least 500 million drams, or a little less than \$1 million. There are no limits on the repatriation of profits, or on the import and export of hard currency, so long as the currency is imported or earned in Armenia. Otherwise there is a \$10,000 limit on the export of cash.

In late 1997, the government initiated the privatization of 11 of the larger state owned enterprises (SOEs), including the energy sector. It was not until 2002, however, that a suitable and willing foreign investor, Daewoo Engineering, was found to manage privatized electricity distribution. Operations at the Zvartnots International Airport have also been successfully leased. The 2001 debt-for-equity swap with Russia, whereby five unproductive SOEs (Hrazdan Thermal Power Plant, the "Mars" Electronics Factory established in 1986 to build robots, and three research labs that were part of the old USSR's military establishment) were exchanged for the cancellation of Armenia's debt with Russia (about \$100 million of nonconcessional lending that was costing almost \$20 million/year to service) promised to increase Russian private investment in Armenia as the Russian government passed the assets on to private investors.

From 1998–2000 annual inflow of foreign direct investment (FDI) ranged from \$120 million to \$230 million, though it fell to \$75.9 million in 2001 in the wake of the global contraction of foreign investment following the 11 September 2001 terrorist attacks on the US World Trade Center. In 2002, FDI increased 12% to about \$85 million. A large share of FDI comes from the Armenian diaspora in the United States, Russia, Iran, France, Greece, the United Kingdom, Germany, and Syria. Since 1998, the Lincy Foundation of Armenian American Kirk Kirkorian has made available about \$165 million to support small and medium enterprise (SME) development (offering concessional loans for businesses that are at least 51% Armenian owned), assistance for tourism development (\$20 million in 2000), and infrastructure repair (\$60 million in 2002 and \$80 million in 2003). Armenia's accession to the World Trade Organization in 2000 has helped improve the investment climate as a consequence of meeting the WTO's strictures for membership.

### 39 ECONOMIC DEVELOPMENT

Development planning in Armenia has been aimed at counteracting the effects of three devastating blows to its economy: the earthquake of 1988; open warfare and economic blockade over Nagorno-Karabakh; and the combination of hyperinflation and industrial collapse following its separation from the Soviet Union. The government has been aggressive in launching economic reform, beginning with its privatization of agricultural land in 1991, which boosted crop output 30% and resulted in a 15% increase in agricultural production. In December 1994, Armenia embarked on a series of ambitious programs of economic reform guided by the International Monetary Fund (IMF) that have resulted in nine years of positive growth rates. On its present course, Armenia will achieve its

preindependence level of per capita income by 2005. By 1997, privatization of most small industry, as well as an estimated 70% of larger enterprises, was complete. Progress has been slower with larger state-owned enterprises (SOEs), not least because the government has had difficulty finding bidders at its cash sales auctions. In 1997, the ministries controlling the SOEs were merged, and their functions changed from direct control to general supervision and special support. The Ministry of Industry and the Ministry of Trade, and certain parts of the Ministry of Economy and the Ministry of Privatization and Foreign Investment were also merged in order to streamline the bureaucracy.

In late 1997, eleven large enterprises were offered for sale and in 1998 the parliament passed a law allowing for the sale of the state electricity transmission and distribution networks. Viable bidders were not immediately forthcoming and on 5 December 2000, as a means of supporting the privatization program the European Bank of Reconstruction and Development (EBRD) agreed to take 20% shares in each of Armenia's four electricity distribution companies, with provision for the Armenian government's right to buy back the shares if the agreements were abrogated. The privatization process of the distribution networks stalled in 2001 and 2002 as twice the government failed to attract any final bids. To make the offer more attractive, the government merged the four distribution companies into one closed-end joint stock company, Electricity Networks of Armenia, and on 31 October 2002, 100% of the shares were acquired by the English company, Midland Resources Holding, Ltd. Midland in turn contracted with Daewoo International of South Korea to manage the newly privatized company. By 2002, only a small fraction of a total 100 larger SOEs had been privatized, according to the US Agency for International Development (USAID).

The republic has substantial deposits of gold, copper, zinc, bauxite, and other minerals, which could be developed with Western capital. The government is currently exploring alternative trade routes, and seeking export orders from the West to aid production and earn foreign exchange. Much of Armenia's industry remains idle or operating at low capacity utilization in large part because of the country's political isolation from oil and gas supplies.

Armenia's determination to create a market-oriented economy and democratic society has engaged (in addition to the IMF) the World Bank and EBRD as well as other financial institutions and foreign countries. Nevertheless, Armenia continues to remain economically isolated in comparison with its Caucasian neighbors.

### 40 SOCIAL DEVELOPMENT

Pension and disability benefit systems were first introduced in 1956 and 1964. More recent legislation was passed in 1990 and updated in 1992. Retirement is set at age 62 for men and age 57 for women, although early retirement is allowed for those engaged in hazardous work and for mothers with more than five children. Retirees normally receive a base pension plus bonuses depending on years of employment.

Work injury legislation provides 100% of average monthly earnings for temporary disability and a proportion of wages up to a maximum of 100% for permanent disability, depending on the extent of incapacity. Unemployment, sickness, and maternity benefits and family allowances are also provided under Armenian law.

Women in Armenia largely occupy traditional roles circumscribed by their families despite an employment law that formally prohibits discrimination based on sex. Women do not receive the same professional opportunities as men and often work in low-level jobs. Violence against women and domestic violence is believed to be underreported.

The constitution protects the freedom of assembly and the freedom of religion. The government allows minorities, such as the Russians, Jews, Kurds, Yezids, Georgians, Greeks, and Assyrians, the right to preserve their cultural practices, and a 1992 law allows them to study in their native language. Discrimination is prohibited on the basis of race, sex, religion, language disability or social status.

Human rights abuses appear to be widespread. Prison conditions fail to meet international standards and accusations of police brutality are not uncommon.

#### 4<sup>1</sup>HEALTH

There were 46,635 live births in 1999, with an infant mortality rate of 15 per 1,000 live births in 2000. The estimated maternal mortality rate was 35 per 100,000 live births as of 1999. Life expectancy in 2000 averaged 74 years. There were 7,000 war-related deaths from 1989 to 1992; the death rate was estimated at 10 per 1,000 people in 2002. In 1999, the incidence of tuberculosis was 58 per 100,000 people. Immunization rates declined as of 1994 due to war and earthquakes but have begun to recover. In 1999, the immunization rates were as follows for a child under the age of one: tuberculosis, 72%; polio, 95%; and measles, 92%. In the same year, the estimated immunization rate for DPT was 91%. In 2000 the total fertility rate was 1.3 births per woman and the maternal mortality rate was an estimated 35 per 100,000 live births.

As of 1999, there were an estimated 3.2 physicians and 0.7 hospital beds per 1,000 people and the country spent an estimated 7.8% of its GDP on health care. In this former republic of the Soviet Union, health care has undergone rapid changes in the last few years. The break from the Soviet Union has meant a disruption of the system that once provided member states with equipment, supplies, and drugs. Out-of-pocket payments by individual are now required for most health care services. However, the health care delivery itself is still largely organized as it was during the Soviet era, with regional clinics and walk-in centers delivering most primary health care services.

The incidence of heart disease is high compared to other moderately developed countries. There is nearly a 50% chance of dying of heart disease after age 65 for both women and men. As of 1999, the number of people living with HIV/AIDS was estimated at fewer than 500 and the prevalence rate among adults was 0.01%.

#### 4<sup>2</sup>HOUSING

Housing throughout Armenia has been somewhat scarce for the past two decades due to a number of factors, including a history of state control, a devastating earthquake in 1988, and civil conflicts. Since the 1993 passage of a law on privatization for previously state and public-owned housing about 95% of apartments were privatized and transferred to ownership by the existing tenants. Between 1993 and 1996, about 3,700 new housing units were under construction each year; however, in a 2000 report, there were about 4,565 buildings that were incomplete due to lack of funds. A large number of buildings were neglected and in serious disrepair and utilities were limited and expensive. As of 1999, there were an estimated 880,000 families in Armenia, but only about 771,285 dwelling structures. About 46% of dwellings were single-family homes. In the earthquake zone, an estimated 33,000 families (2000 est.) were living in trailers without water or sanitation facilities. About 14,000 refugee families were homeless, residing in hostels and non-residential buildings. The World Bank and USAID have been working with the government on a "New Housing Strategy," primarily as a means to provide housing for those within the earthquake zone.

#### 4<sup>3</sup>EDUCATION

The official language is Armenian. Education is compulsory between the ages of 7 and 15 years and is free at both the primary and secondary levels. Elementary education lasts three years and intermediate education lasts five years. This is followed by two years of general secondary education. Since the early 1990s, increasing emphasis has been placed on Armenian history and culture. In 1999 the adult illiteracy rate was 1.7%.

There are two universities in Yerevan: the Yerevan State University (founded in 1919) and the State Engineering University of Armenia. Seven other educational institutions are located in the capital. As of 1999, public expenditure on education was estimated at 2% of GDP.

In 1996, there were 1,402 primary schools, with a total enrollment of 256,475 students and 13,620 teachers. The secondary pupil-teacher ratio in 1995 was 10 to 1. In 1991 a total of 125,900 students were enrolled in all higher-level institutions.

#### 4<sup>4</sup>LIBRARIES AND MUSEUMS

There are two branches of the National Library, with the main branch in Yerevan comprising 6.2 million volumes as of 2002. The main library of the Armenian Academy of Sciences in Yerevan has 4.4 million volumes. The Armenian Academy of Sciences and the universities each have research libraries. Yerevan's museums include the National Gallery of Arts; the Yerevan Children's Picture Gallery, a unique collection of children's art from Armenia and around the world; the Museum of Modern Art; the House Museum of Ovanes Tumanjan, Armenia's most renowned poet; and the Museum of Ancient Manuscripts. There are also museums devoted to the composer Aram Khachaturian (including his piano) and the filmmaker Sergei Paradjanov, Armenia's most famous sons.

#### 4<sup>5</sup>MEDIA

In 1997, there were 568,000 main line telephones. A 2001 report added 25,000 mobile cellular phones. Communications are the responsibility of the Ministry of Posts and Telecommunications and are operated by Armental, a 90% Greek-owned company. Yerevan is linked to the Trans-Asia-Europe fiber-optic cable through Iran. Communications links to other former Soviet republics are by land line or microwave, and to other countries by satellite and through Moscow. Armenian and Russian radio and television stations broadcast throughout the country. As of 1998, there were 9 AM and 6 FM radio stations and 3 television stations. In addition, programs were relayed by Russian television. Television is the most accessible medium. In 1997 there were 850,000 radios and 825,000 televisions in the country.

The five largest newspapers as of 2002 were *Golos Armenii* (*The Voice of Armenia*, circulation 20,000), *Hayastani Hanrapetutyun* (a joint publication of the parliament and the newspaper's staff), and *Respublika Armenia*.

Armenia's constitution provides for freedom of expression, and is said to generally uphold freedom of speech and press. However, journalists seem to adhere to an unspoken rule of self-censorship, particularly when reporting on political issues, since they traditionally depend on the government for funding and access to facilities. The government has, it is noted, begun to shed itself of the state publishing apparatus, and it has dissolved the Ministry of Information.

In 2001, there were 9 Internet service providers serving about 30,000 Internet users.

#### 4<sup>6</sup>ORGANIZATIONS

Important political movements in Armenia include the Armenian National Movement and the National Self-Determination

Association. Armenian trade unions belong to the umbrella organization Council of Armenia Trade Unions. The Chamber of Commerce and Industry of the Republic of Armenia promotes the economic and business activities of the country in world markets.

The National Academy of Sciences of Armenia encourages the public interest in science and seeks to ensure availability and effectiveness of science education programs. The group also works with various research programs. The Independent Media Center promotes the freedom and accuracy of press and other media.

There are a number of national sporting organizations including those sponsoring football, skiing, and the Special Olympics. The National Youth Council of the Republic of Armenia coordinates youth organizations through the support of the Ministry of Culture, Sports, and Youth. An affiliate of the United Nations of Youth (UNOY), a foundation based in the Netherlands, was established in Armenia in 1994. Other youth groups include the Aragast Youth Club and the Armenian Euro Club Unipax. Scouting organizations are also present. Organizations representing the rights and role of women in society include the League of Armenian Women, the Union of the Protection of Women's, Children and Family Rights, and the Women's Alliance.

#### 47 TOURISM, TRAVEL, AND RECREATION

Although there is a shortage of resources, Armenia has been investing in new hotels to increase tourism. Outdoor activities and scenery seem to be the primary attractions. Lake Sevan, the world's largest mountain lake is a popular summer tourist spot and The Tsakhador Ski Resort is open year round for skiing in the winter and hiking and picnicking the rest of the year. Mt. Ararat, the traditional site of the landing of Noah's Ark, is located along the border with Turkey.

In 2000, there were about 45,000 visitor arrivals, as compared to 13,000 in 1996. Tourist receipts totaled us\$45 million in 2000.

In 2002 the US Department of State estimated the daily cost of staying in Yerevan was \$184.

#### 48 FAMOUS ARMENIANS

Levon Ter-Petrosyan was president of Armenia from 1991 until 1998. Gagik G. Haroutunian has been prime minister, vice

president, and chairman of the Council of Ministers since November 1991. Gregory Nare Katzi, who lived in the 10th century, was Armenia's first great poet. Nineteenth-century novelists include Hakob Maliq-Hakobian (1835?-1888) whose pen name is "Raffi" and the playwright Gabriel Sundukian (1825-1912). Soviet aircraft designer Artem Mikuyan (1905-70) served as head of the MiG design bureau.

#### 49 DEPENDENCIES

Armenia has no territories or colonies.

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# AUSTRIA

Republic of Austria  
*Republik Österreich*

**CAPITAL:** Vienna (Wien)

**FLAG:** The flag consists of a white horizontal stripe between two red stripes.

**ANTHEM:** *Land der Berge, Land am Ströme (Land of Mountains, Land on the River)*.

**MONETARY UNIT:** The euro replaced the schilling as the national currency in 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is in use.

**HOLIDAYS:** New Year's Day, 1 January; Epiphany, 6 January; May Day, 1 May; Assumption, 15 August; National Day, 26 October; All Saints' Day, 1 November; Immaculate Conception, 8 December; Christmas, 25 December; St. Stephen's Day, 26 December. Movable religious holidays include Easter Monday, Ascension, Whitmonday, and Corpus Christi. In addition, there are provincial holidays.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Austria, with an area of 83,858 sq km (32,378 sq mi), is a landlocked country in Central Europe, extending 573 km (356 mi) E–W and 294 km (183 mi) N–S. Comparatively, Austria is slightly smaller than the state of Maine. Bounded on the N by Germany and the Czech Republic, on the E by Hungary, on the S by Slovenia and Italy, and on the W by Liechtenstein and Switzerland, Austria has a total boundary length of 2,562 km (1,588 mi).

While not making any territorial claims, Austria oversees the treatment of German speakers in the South Tyrol (now part of the autonomous province of Trentino-Alto Adige), which was ceded to Italy under the Treaty of St.-Germain-en-Laye in 1919.

Austria's capital city, Vienna, is located in the northeastern part of the country.

## <sup>2</sup>TOPOGRAPHY

Most of western and central Austria is mountainous, and much of the flatter area to the east is hilly, but a series of passes and valleys permits travel within the country and has made Austria an important bridge between various sections of Europe. The principal topographic regions are the Alps, constituting 62.8% of Austria's land area; the Alpine and Carpathian foothills (11.3%); the Pannonian lowlands of the east (11.3%); the granite and gneiss highlands of the Bohemian Massif (10.1%); and the Vienna Basin (4.4%).

The highest point of the Austrian Alps is the Grossglockner, 3,797 m (12,457 ft). The Danube (Donau) River, fully navigable along its 350-km (217-mi) course through northeastern Austria, is the chief waterway, and several important streams—the Inn, Enns, Drava (Drau), and Mur—are tributaries to it. Included within Austria are many Alpine lakes, most of the Neusiedler See (the lowest point in Austria, 115 m/377 ft above sea level), and part of Lake Constance (Bodensee).

## <sup>3</sup>CLIMATE

Climatic conditions depend on location and altitude. Temperatures range from an average of about -7 to -1°C (20 to 30°F) in winter to about 18 to 24°C (65 to 75°F) in July. Rainfall ranges from more than 102 cm (50 in) annually in the western mountains to less than 66 cm (26 in) in the driest region, near Vienna.

## <sup>4</sup>FLORA AND FAUNA

Plants and animals are those typical of Central Europe. Austria is one of Europe's most heavily wooded countries, with 44% of its area under forests. Deciduous trees (particularly beech, birch, and oak) and conifers (fir) cover the mountains up to about 1,200 m (4,000 ft); above that point fir predominates and then gives way to larch and stone pine. There is a large variety of wildlife. Although chamois are now rare, deer, hare, fox, badger, marten, Alpine chough, grouse, marmot, partridge, and pheasant are still plentiful. The birds of the reed beds around the Neusiedler See include purple heron, spoonbill, and avocet. The ibex, once threatened, has begun breeding again. Hunting is strictly regulated.

## <sup>5</sup>ENVIRONMENT

The Ministry of Health and Environmental Protection, established in 1972, is responsible for the coordination at the national level of all environmental protection efforts, addressing its efforts toward problems including waste disposal, pollution, noise, sulfur dioxide, and carbon monoxide levels, as well as emissions by the iron, steel, and ceramics industries. A toxic waste law enacted in 1984 established strict regulations for the collection, transport, and disposal of dangerous substances. The Austrian government has imposed strict regulations on gas emissions, which helped to reduce sulphur dioxide by two-thirds over an eight-year period beginning in 1980. In 1992 Austria was among the 50 countries with the highest level of industrial carbon dioxide emissions, producing 56.6 million metric tons of



emissions, or 7.29 m tons per capita. In 1996, the level rose to 59.3 million metric tons.

Austrians continue to fight the problem of acid rain which has damaged 25% of the country's forests. In general, environmental legislation is based on the "polluter pays" principle. The water resources fund of the Ministry for Buildings and Technology distributed more than \$20 billion for canalization and wastewater purification plants between 1959 and the early 1980s; the Danube and the Mur have been the special focus of efforts to improve water quality. Endangered species include Freya's damselfly and the dusky large blue butterfly. Of the country's 83 species of mammals, 7 are threatened. Five of Austria's 213 breeding bird species are endangered. There were 6 endangered plant species from a total of 3,000-plus as of 2001. Endangered species include Freya's damselfly, slender-billed curlew, bald ibis, Danube salmon, and the European mink.

## 6 POPULATION

The population of Austria in 2003 was estimated by the United Nations at 8,116,000, which placed it as number 91 in population among the 193 nations of the world. In that year approximately 15% of the population was over 65 years of age, with another 17% of the population under 15 years of age. There were 96 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.05%, with the projected population for the year 2015 at 8,058,000. The population density in 2002 was 97 per sq km (252 per sq mi). The majority of the population lives in the lowland regions and river valleys. There has been a recent influx of foreign workers in many of the urban regions.

It was estimated by the Population Reference Bureau that 65% of the population lived in urban areas in 2001. The capital city, Vienna, had a population of 2,068,000 in that year. Other large cities include Graz, 226,424; Linz, 186,298; Salzburg, 144,816; and Innsbruck, 113,826. According to the United Nations, the urban population growth rate for 2000–2005 was 0.5%.

## 7 MIGRATION

Every Austrian has the constitutional right to migrate. For several years after the end of World War II, fairly large numbers of Austrians emigrated, mostly to Australia, Canada, and the US, but as the economy recovered from war damage, emigration became insignificant. Austria retains the principle of the right of asylum, and the benefits of Austrian social legislation are granted to refugees and displaced persons. Between 1945 and 1983, 1,942,782 refugees from more than 30 countries came to Austria, of whom about 590,000 became Austrian citizens (including some 302,000 German-speaking expatriates from Czechoslovakia, Romania, and Yugoslavia). Following the political upheavals in Hungary in 1956, Czechoslovakia in 1968, and Poland in 1981, Austria received large numbers of refugees from these countries: 180,432 Hungarians, about 100,000 Czechs and Slovaks, and 33,142 Poles. Between 1968 and 1986, 261,857 Jewish emigrants from the Soviet Union passed through Austria, about one-third of them going to Israel and the rest to other countries, primarily the US. Of Austrians living abroad, some 186,900 were residents of Germany in 1991. As of 2002, Austria has a net migration rate of -0.8 migrants per 1,000 population.

In 2001 there were 30,140 asylum applications. The majority of those seeking asylum were from Afghanistan, Iraq, Turkey, India, and Yugoslavia. Approximately 23% of those were from Afghanistan alone. In that year there were 15,500 refugees in Austria. Also, marriages to a foreign spouse accounted for 16.3% of all marriages, which increased the foreign population. Citizenship legislation has been changed to allow foreign spouses to become citizens only after five years of marriage to the same Austrian spouse.

There were 32,000 foreign workers in the country in 2001, primarily from Germany. The integration of Bosnian refugees from the mid-1990s has been successful; the majority have continued with their employment. Turkish workers traditionally have had the highest unemployment rate of all foreign worker groups.

## 8 ETHNIC GROUPS

Austrians are a people of mixed Dinaric, Nordic, Alpine, and East Baltic origin. Germans constitute about 88% of the total population. Ethnic minorities include Croatians in the Burgenland, making up about 0.3% of the population, and Slovenes in southern Carinthia, accounting for about 0.2%. Other groups comprise the remaining 0.1%, including Hungarians, Czechs, Slovaks, Serbians, and Italians.

## 9 LANGUAGES

The official language is German and nearly 99% of the inhabitants speak it as their mother tongue. People in Vorarlberg Province speak German with an Alemannic accent, similar to that in Switzerland. In other provinces, Austrians speak various Bavarian dialects. There are also Croatian, Slovene, and Hungarian speaking minorities, and small groups of Czech, Slovak, and Polish speakers in Vienna.

## 10 RELIGIONS

About 78% of the people are Roman Catholic; 5% belong to the Lutheran Church (Ausbürger and Helvetic Confessions); and 17% belong to other or no religious groups, including Islam (2%). The Jewish community stands at about 0.09% of the population; Eastern Orthodox (Russian, Greek, Serbian, Romanian, Bulgarian) at 1.5%; the Church of Jesus Christ of Latter-Day Saints (Mormons) and the New Apostolic Church, 0.2% each; the Syrian Orthodox Church, the Armenian Apostolic Church, the Methodist Church of Austria, and the Buddhist community, all under 0.1% each. These are the only religions that are officially recognized. About 2% claim membership in nonrecognized faiths. More than 8% of Austrians profess atheism. A number of groups defined as "sects" by the government are active in the country, including the Church of Scientology and the Unification Church.

## 11 TRANSPORTATION

Austria has a dense transportation network. The Federal Railway Administration controls some 90% of Austria's 6,095 km (3,787 mi) of railways in 2002. Of the 5,564 km (3,457 mi) of standard-gauge track, 3,521 km (2,187 mi) are electrified; 94 km (58 mi) of the 479 km (298 mi) of narrow-gauge track are electrified.

In 2002, paved highways totaled 133,361 km (82,870 mi), including 1,613 km (1,002 mi) of expressways. In 2000, there were 4,097,145 passenger cars, and 779,651 trucks, buses, and taxis.

Austria has 358 km (223 mi) of inland waterways, over 80% of which are navigable by engine-powered vessels. Most of Austria's overseas trade passes through the Italian port of Trieste; the rest is shipped from German ports. In 2001, the oceangoing merchant fleet of Austria consisted of 10 ships of 1,000 GRT or over, with a capacity of 46,563 GRT.

Also in 2001, airports numbered an estimated 55, of which 24 had paved runways. Of the six major airports in Austria—Schwechat (near Vienna), Graz, Innsbruck, Klagenfurt, Linz, and Salzburg—Schwechat is by far the most important. In 2001, Austrian air carriers provided flights for 6,514,300 passengers and carried 356,000 freight ton km (221,200 freight ton mi).

## 12 HISTORY

Human settlements have existed in what is now Austria since prehistoric times. In 14 BC, the region, already overrun by various



LOCATION: 46°22' to 49°1' N; 9°22' to 17°10' E BOUNDARY LENGTHS: Germany, 784 kilometers (487 miles); Czech Republic, 362 kilometers (225 miles); Slovakia, 91 kilometers (57 miles); Hungary, 366 kilometers (227 miles); Slovenia, 330 kilometers (205 miles); Italy, 430 kilometers (267 miles); Liechtenstein, 37 kilometers (23 miles); Switzerland, 164 kilometers (102 miles).

tribes, including the Celts, was conquered by the Romans, who divided it among the provinces of Noricum, Pannonia, and Illyria. The Romans founded several towns that survive today: Vindobona (Vienna), Juvavum (Salzburg), Valdidena (Innsbruck), and Brigantium (Bregenz). After the fall of the Roman Empire, Austria became (about AD 800) a border province of Charlemagne's empire until the 10th century, when it was joined to the Holy Roman Empire as Österreich ("Kingdom of the East").

From the late 13th to the early 20th century, the history of Austria is tied to that of the Habsburg family. In 1282, Rudolf von Habsburg (Rudolf I, newly elected German emperor) gave Austria (Upper and Lower Austria, Carinthia, Styria, and Carniola) to his sons, Albrecht and Rudolf, thus inaugurating the male Habsburg succession that would continue unbroken until 1740. The highest point of Habsburg rule came in the 1500s when Emperor Maximilian I (r.1493–1519) arranged a marriage between his son and the daughter of King Ferdinand and Queen Isabella of Spain. Maximilian's grandson became King Charles I of Spain in 1516 and, three years later, was elected Holy Roman emperor, as Charles V. Until Charles gave up his throne in 1556, he ruled over Austria, Spain, the Netherlands, and much of Italy, as well as over large possessions in the Americas. Charles gave Austria to his brother Ferdinand, who had already been elected

king of Hungary and Bohemia in 1526; the Habsburgs maintained their reign over Austria, Bohemia, and Hungary until 1918.

When the last Habsburg king of Spain died in 1700, France as well as Austria laid claim to the throne. The dispute between the continental powers erupted into the War of the Spanish Succession (1701–14) and drew in other European countries in alliance with the respective claimants. At the end of the war, Austria was given control of the Spanish Netherlands (Belgium), Naples, Milan, and Sardinia. (It later lost Naples, together with Sicily, in the War of the Polish Succession, 1733–35.) In 1740, after the death of Charles VI, several German princes refused to acknowledge his daughter and only child, Maria Theresa, as the legitimate ruler of Austria, thus provoking the War of the Austrian Succession (1740–48). Maria Theresa lost Silesia to Prussia but held on to her throne, from which she proceeded to institute a series of major internal reforms as ruler of Austria, Hungary, and Bohemia. After 1765, she ruled jointly with her son, Holy Roman Emperor Joseph II (r.1765–90). Following his mother's death in 1780, Joseph, an enlightened despot, sought to abolish serfdom and introduce religious freedom, but he succeeded only in creating considerable unrest. Despite the political turmoil, Austria's cultural life flourished during this

period, which spanned the careers of the composers Haydn and Mozart.

During the French Revolutionary and Napoleonic wars, Austria suffered a further diminution of territory. In 1797, it gave up Belgium and Milan to France, receiving Venice, however, in recompense. In 1805, Austria lost Venice, as well as the Tyrol and part of Dalmatia, to Napoleon. Some restitution was made by the Congress of Vienna (1814–15), convened after Napoleon's defeat; it awarded Lombardy, Venetia, and Istria and restored all of Dalmatia to Austria, but it denied the Habsburgs the return of former possessions in Baden and the Netherlands.

From 1815 to 1848, Austria, under the ministry of Prince Klemens von Metternich, dominated European politics as the leading power of both the German Confederation and the Holy Alliance (Austria, Russia, and Prussia). Unchallenged abroad, the reactionary Metternich achieved peace at home through ruthless suppression of all liberal or nationalist movements among the people in the Habsburg Empire. In 1848, however, revolutions broke out in Hungary and Bohemia and in Vienna itself; Metternich resigned and fled to London. Although the revolutions were crushed, Emperor Ferdinand I abdicated in December. He was succeeded by his 18-year-old nephew, Franz Josef I, who was destined to occupy the Austrian throne for 68 years, until his death in 1916. During his reign, Austria attempted to set up a strong central government that would unify all the Habsburg possessions under its leadership. But nationalist tensions persisted, exacerbated by outside interference. In 1859, in a war over Habsburg-controlled Lombardy, French and Sardinian troops defeated the Austrians, ending Austrian preeminence in Italian politics; and in 1866, Prussia forced Austria out of the political affairs of Germany after the Seven Weeks' War. In 1867, Hungarian nationalists, taking advantage of Austria's weakened state, compelled Franz Josef to sign an agreement giving Hungary equal rights with Austria. In the ensuing Dual Monarchy, the Austrian Empire and the Kingdom of Hungary were united under one ruler. Each country had its own national government, but both shared responsibility for foreign affairs, defense, and finance. Self-government for the empire's Magyar (Hungarian) population was balanced by continued suppression of the Slavs.

On 28 June 1914, at Sarajevo, Serbian patriots, members of the Slavic movement, assassinated Archduke Francis Ferdinand, nephew of the emperor and heir to the Austrian throne. Their act set off World War I, in which Austria-Hungary was joined by Germany (an ally since 1879), Italy (a member, with the first two, of the Triple Alliance of 1882), and Turkey. They became known as the Central Powers. In 1915, Italy defected to the side of the Allies—France, Russia, the UK, and (from 1917) the United States. After the defeat of the Central Powers and the collapse of their empires in 1918, Austria, now reduced to its German-speaking sections, was proclaimed a republic. The Treaty of St.-Germain-en-Laye (1919) fixed the borders of the new state and forbade it any kind of political or economic union with Germany without League of Nations approval.

During the next decade, Austria was plagued by inflation, food shortages, unemployment, financial scandals, and, as a consequence, growing political unrest. The country's two major political groupings, the Christian Socialist Party and the Social Democratic Party, were almost equal in strength, with their own private paramilitary movements. A small Austrian Nazi party, advocating union with Germany, constituted a third group. In March 1933, Chancellor Engelbert Dollfuss, leader of the Christian Socialists, dissolved the Austrian parliament, suspended the democratic constitution of 1920, and ruled by decree, hoping to control the unrest. In February 1934, civil strife erupted; government forces broke up the opposition Social Democratic Party, executing or imprisoning many persons. Dollfuss thereupon established an authoritarian corporate state along

Fascist lines. On 25 July, the Nazis, emboldened by Adolf Hitler's rise in Germany, assassinated Dollfuss in an abortive coup. Kurt von Schuschnigg, who had served under Dollfuss as minister of justice and education, then became chancellor. For the next four years, Schuschnigg struggled to keep Austria independent amid growing German pressure for annexation (Anschluss). On 11 March 1938, however, German troops entered the country, and two days later Austria was proclaimed a part of the German Reich. In 1939, Austria, now known as Ostmark, entered World War II as part of the Axis alliance.

Allied troops entered Austria in April 1945, and the country was divided into US, British, French, and Soviet zones of occupation. Declaring the 1920 constitution in force, the occupying powers permitted Austrians to set up a provisional government but limited Austrian sovereignty under an agreement of 1946. Austria made effective use of foreign economic aid during the early postwar years. The United States and the UK supplied \$379 million worth of goods between 1945 and 1948; another \$110 million was provided by private organizations; and Marshall Plan aid amounted to \$962 million. Inflation was checked by the early 1950s, and for most of the remainder of that decade the economy sustained one of the world's highest growth rates.

As a neutral nation, Austria has remained outside the political and military alliances into which postwar Europe is divided. Economically, however, it has developed close links with Western Europe, joining EFTA in 1960 and concluding free-trade agreements with the EEC (now the EU) in 1972. Because of its location, Austria served as an entrepôt between the Western trade blocs and the CMEA, with which it also has trade relations. Austria was twice the site of US-USSR summit meetings. In June 1961, President John F. Kennedy and Premier Nikita S. Khrushchev conferred in Vienna, and in June 1979, presidents Jimmy Carter and Leonid I. Brezhnev signed a strategic arms limitation agreement in the Austrian capital. Austria joined the EU in 1995, and European economic and monetary union in 1999. On 15 May 1955, after more than eight years of negotiations, representatives of Austria and the four powers signed, at Vienna, the Austrian State Treaty, reestablishing an independent and democratic Austria, and in October all occupation forces withdrew from the country. Under the treaty, Austria agreed to become permanently neutral.

On 8 July 1986, following elections in May and June, former UN Secretary-General Kurt Waldheim was sworn in as president of Austria. During the presidential campaign, Waldheim was accused of having belonged to Nazi organizations during World War II and of having taken part in war crimes while stationed in Greece and Yugoslavia with the German army from 1942 to 1945; he denied the charges. After his inauguration, diplomats of many nations made a point of avoiding public contact with the new president, and on 27 April 1987, the US Justice Department barred him from entering the United States. To the dismay of many leaders, Pope John Paul II granted Waldheim an audience at the Vatican on 25 June.

Waldheim declined to run for a second term and in July 1992, Thomas Klestil was elected federal president and he was reelected on 19 April 1998. Relations with Israel, which had been strained under Waldheim's presidency, returned to normal.

The growing strength of Austria's Freedom Party, headed by Jörg Haider, is evidence of a turn to the right in Austrian politics. Although the party did not capture the votes it wanted to in the 17 December 1995 legislative elections, in the elections for European Parliament on 14 October 1996 the aggressively nationalist, anti-immigrant, anti-European Freedom Party took 28% of the vote, 2% behind the Social Democrats. The People's Party and Social Democrats remained together in a coalition throughout the 1990s and prepared Austria for entry into the European economic and monetary union. Cautious reforms took

place, and the administration privatized state-owned enterprises, brought down inflation to less than 1% in 1998, and reduced the budget deficit to 2%. Average growth rates between 1997 and 2000 were over 2%. Unemployment fell to 4% in 2000. However, the global economic downturn that began in 2001 caused Austria's economy to suffer; coupled with costs resulting from severe flooding in August 2002, Austria's budget deficit increased sharply.

The Freedom Party scored a triumph in the general election of October 1999, coming in second behind the Social Democrats with 27% of the vote. After the traditional coalition of Social Democrats and the conservative People's Party failed to reach agreement on the next government in early 2000, the leader of the People's Party, Wolfgang Schüssel, turned to Haider and the Freedom Party to form a new administration. President Klestil had no choice but to accept the new coalition agreement. Its installation on 3 February 2000 provoked widespread protests both within Austria and from other members of the European Union. The EU partners decided to boycott Austria in all official meetings, a decision that caused a severe crisis in the EU itself. Haider resigned as party chairman in April 2000 although he remained governor of Carinthia. His withdrawal from federal politics did not soften the views of the EU, which imposed diplomatic sanctions on Austria. (They were lifted in September 2000.) A power struggle within the Freedom Party between Haider and Austria's Vice-Chancellor and Freedom Party chair Susanne Riess-Passer in September 2002 resulted in Riess-Passer's resignation, along with that of two Freedom Party ministers. The People's Party/Freedom Party coalition government collapsed, and new elections were called for 24 November 2002. In those elections, Schüssel's People's Party made wide gains; the Freedom Party suffered a major defeat. It dropped to 10% of the vote, down from its 2000 showing of 27%. Despite these results, and after failed negotiations with the Social Democrats and Greens, Schüssel formed a coalition government with the Freedom Party, which was sworn in on 1 April 2003.

After the new government took office in 2003, it launched a series of austerity measures designed to save the government 8 billion euros. Early retirement was to be cancelled, cuts were planned in public services and the health care system was to be reformed, and, most controversially, drastic cuts were proposed in the nation's pension system. As a result, approximately 500,000 Austrians took part in nationwide strikes in May 2003, the largest in 50 years.

In January 2001, the Austrian government and several Austrian companies agreed to provide \$360 million to a general settlement fund to compensate Jews who had their property and assets seized by the Nazis during World War II. Each victim of Nazi persecution was to receive \$7,000. Austria also created a social fund to pay pensions to survivors no longer living in the country, in the amount of \$100 million.

Following the 11 September 2001 terrorist attacks on the United States, Austria passed a Security and Defense Doctrine, representing a shift in Austria's longstanding policy of neutrality. Although Austria will not participate in military alliances requiring mutual defense commitments, the country is gradually moving towards closer integration with European security structures, which would allow for participation in the EU rapid reaction force and NATO's Partnership for Peace program. Austria contributed peacekeeping forces to the former Yugoslavia, and supported NATO strikes on Serbia during the Kosovo conflict. Austria contributed 60 soldiers to the international military protection force in Afghanistan following the US-led military campaign there.

### 13 GOVERNMENT

The second Austrian republic was established on 19 December 1945. According to the constitution of 1920, as amended in

1929, Austria is a federal republic with a democratically elected parliament. The president, elected by popular vote for a six-year term, appoints a federal chancellor (Bundeskanzler), usually the leader of the largest party in parliament, for a term not exceeding that of parliament (four years); upon the chancellor's proposal, the president nominates ministers (who should not serve in parliament at the same time) to head the administrative departments of government. The ministers make up the cabinet, which formulates and directs national policy. Cabinet ministers serve out their terms subject to the confidence of a parliamentary majority. The president is limited to two terms of office.

The parliament, known as the Federal Assembly (Bundesversammlung), consists of the National Council (Nationalrat) and Federal Council (Bundesrat). The Bundesrat has 64 members, elected by the country's unicameral provincial legislatures (Landtage) in proportion to the population of each province. The Nationalrat has 183 members (prior to 1970, 165 members), elected directly in nine election districts for four-year terms by secret ballot on the basis of proportional representation. All citizens 25 years of age or older are eligible to serve in parliament; all citizens 19 years of age or older may vote. Voting is compulsory for presidential elections. The electoral law was amended in February 1990 to extend the franchise to Austrians living permanently or temporarily abroad. All legislation originates in the Nationalrat; the Bundesrat exercises only a suspensory veto.

### 14 POLITICAL PARTIES

The restoration of the republic in 1945 revived political activity in Austria. In general elections that November, the Austrian People's Party (Österreichische Volkspartei—ÖVP), successor to the prewar Christian Socialists, emerged as the strongest party, with the reborn Socialist Party of Austria (Sozialistische Partei Österreichs—SPÖ) trailing slightly. The ÖVP and SPÖ, controlling 161 of the 165 seats in the Nationalrat, formed a coalition government and worked closely with the Allies to construct an independent and democratic Austria. This coalition held until after the elections of 1966, when the ÖVP, with a majority of 11 seats, formed a one-party government headed by Chancellor Josef Klaus. In 1970, the SPÖ won a plurality in the Nationalrat and was able to put together a minority Socialist government under its leader, Bruno Kreisky. Kreisky remained in power until 1983—longer than any other non-Communist European head of government. The Socialist Party was renamed the Social Democratic Party in 1991, and began to advocate free-market oriented policies. It has also supported Austria's entry into the EC (now EU).

The ÖVP, also referred to as Austria's Christian Democratic Party, favors free enterprise, competition, and the reduction of class differences. Organized into three constituencies—businessmen, farmers, and employees—it advocates provincial rights and strongly supports the Catholic Church. The SPÖ, also known as the Social Democratic Party, advocates moderate reforms through democratic processes. It favored continued nationalization of key industries, economic planning, and widespread social welfare benefits. It is closely allied with the Austrian Trade Union Federation and its constituent unions. The economic policy differences between the two parties diminished in the 1990s as both recognized the need to introduce structural reforms and bring down budget deficits. Their main disagreements are on the pace of change, rather than on the need to introduce reforms.

A third political group, the Union of Independents (Verband der Unabhängigen—VdU), appeared in 1949. Strongly antisocialist, with anticlerical, pan-German elements, it challenged the coalition in the elections of that year, winning 16 seats. By the mid-1950s, however, the VdU, consistently denied a voice in government by the two major parties, had begun to

disintegrate. In 1955, it was reorganized, under new leadership, as the Freedom Party of Austria (Freiheitliche Partei Österreichs—FPÖ). In 1970, with six seats in the Nationalrat, the FPÖ was accepted as a negotiating partner by the SPÖ. The party favors individual initiative over collective security. In June 1992, FPÖ dissidents founded the Free Democratic Party.

The Communist Party of Austria (Kommunistische Partei Österreichs—KPÖ) has declined steadily in strength since the end of World War II. It has had no parliamentary representation, for example, since 1959, when it lost the three seats won in 1956. The KPÖ was the first party in the Nationalrat to propose, in 1953, that Austria become a neutral nation.

In the elections of 24 April 1983, dominated by economic issues, the SPÖ (with 47.8% of the vote) won 90 seats, down from 95 in 1979; the ÖVP (with 43.21%) 81; and the FPÖ (with 4.97%) 12. The KPÖ polled 0.66% of the vote but won no seats. Two new environmentalist groups, the United Greens of Austria (Vereinten Grünen Österreichs) and the Alternative List—Austria (Alternative Liste Österreichs), likewise failed to gain representation in the Nationalrat, although they collectively polled more than 3% of the total vote. In May, Kreisky, having failed to win a clear majority, resigned. He was succeeded as party leader and chancellor by Fred Sinowatz, who proceeded to form a coalition government with the FPÖ.

Following the election of Kurt Waldheim to the presidency in June 1986, Sinowatz resigned and was succeeded by Franz Vranitzky, a former finance minister. The SPÖ-FPÖ coalition broke down in September 1986. Following parliamentary elections on 23 November 1986, a new government was sworn in on 21 January 1987, with Vranitzky from the SPÖ as chancellor and Alois Mock, FPÖ chairman, as vice-chancellor and prime minister.

In the general election of 7 October 1990, the “grand coalition” continued. The 183 seats in the Nationalrat were distributed as follows: SPÖ (80), ÖVP (60), FPÖ (33), and the Green Alternative (10). It also governed after the 1995 elections.

The 1999 elections finally brought change and was a watershed event. In the legislative election held on 3 October 1999, the 183 seats in the Nationalrat were distributed as follows: SPÖ (65), ÖVP (52), FPÖ (52), Greens (14), Liberal Forum (0). Compared to 1995 elections, The SPÖ lost 6 seats, the Liberal Forum lost all of its ten seats and had no representation in the new National Assembly, the ÖVP retained more or less its share of the vote, while the Greens went from 9 to 14 seats and the FPÖ went from 40 seats to 52 seats and became, together, with the People’s Party, the second largest bloc in parliament. The leader of the ÖVP, Wolfgang Schüssel, formed a coalition with the FPÖ, and became chancellor.

Following the 24 November 2002 elections, party strength in the Nationalrat was distributed as follows: ÖVP, 42.3% (79 seats); SPÖ, 36.5% (69 seats); FPÖ, 10% (18 seats); the Greens, 9.5% (17 seats); the Liberal Forum, 1% (no seats); and the KPÖ, 0.6% (no seats). Schüssel remained chancellor, and formed a government with the FPÖ, as he was unable to persuade the SPÖ and the Greens to join in a coalition with the ÖVP.

## 15 LOCAL GOVERNMENT

Austria is divided into nine provinces (Länder): Vienna (Wien), Lower Austria (Niederösterreich), Upper Austria (Oberösterreich), Styria (Steiermark), Carinthia (Kärnten), Tyrol (Tirol), Salzburg, Burgenland, and Vorarlberg. The relationship between the provinces and the central government is defined by the constitution. Most administrative, legislative, and judicial authority—including taxation, welfare, and police—is granted to the central government. The Länder, which enjoy all residual powers, act as executors of federal authority.

Each province has its own unicameral legislature, elected on the basis of proportional representation. All legislation must be

submitted through the provincial governor (Landeshauptmann) to the competent federal ministry for concurrence. If such concurrence is not obtained, the provincial legislature can reinstate the bill by majority vote. In case of prolonged conflict between the federal authorities and the provincial legislatures, the Constitutional Court may be appealed to for settlement.

The provincial governor, elected by the provincial legislature (Landtag), is assisted by a cabinet (Landesrat) consisting of ministries analogous to those at the federal level. Each province is divided into several administrative districts (Bezirke), each of which is under a district commissioner (Bezirkshauptmann). Local self-government is vested in popularly elected communal councils which, in turn, elect various local officers, including the mayor (Bürgermeister) and his deputies. There are some 2,300 communities in Austria, as well as 14 cities that have independent charters and fall directly under provincial authority rather than that of the districts. Vienna is both a municipality and a province.

## 16 JUDICIAL SYSTEM

As of 2002, Austria had about 200 local courts (Bezirksgerichte) with civil jurisdiction. There were also 19 provincial and district courts (Landesgerichte and Kreisgerichte) with civil and criminal jurisdiction and 4 higher provincial courts (Oberlandesgerichte) with criminal jurisdiction, located in Vienna, Graz, Innsbruck, and Linz. The Supreme Court (Oberster Gerichtshof), in Vienna, acts as the final appellate court for criminal and civil cases. The Constitutional Court (Verfassungsgerichtshof) has supreme jurisdiction over constitutional and civil rights issues. The Administrative Court (Verwaltungsgerichtshof) ensures the legal functioning of public administration. A central auditing authority controls financial administration. Judges are appointed by the federal government and cannot be removed or transferred. Trial by jury was reintroduced in 1951. There is no capital punishment.

The judiciary is independent of the other branches. Judges are appointed for life and cannot be removed.

Until recently, the law allowed for detention of suspects for 48 hours without judicial review and up to two years of detention during the course of a criminal investigation. Amendments to the law in 1994 require more stringent judicial review of pretrial and investigative detention. Criminal defendants are afforded a presumption of innocence, public trials, and jury trial for major offenses, as well as a number of other procedural rights.

## 17 ARMED FORCES

The Austrian army, which included the air service, numbered some 34,600 active personnel in 2002. Reserve strength was 72,000 ready with another 990,000 having military training but no commitment. Equipment included 160 main battle tanks and 52 combat aircraft. The 2001–02 defense budget was \$1.5 billion or 0.8% of GDP. Austria provided support to ten peacekeeping and UN missions.

## 18 INTERNATIONAL COOPERATION

The Federal Constitutional Law on the Neutrality of Austria, adopted on 26 October 1955, binds the nation to perpetual neutrality and bans it from joining any military alliances or permitting the establishment of foreign military bases on its territory. However, in December 2001, Austria adopted a Security and Defense Doctrine; although Austria will not participate in military alliances requiring mutual defense commitments, the country is gradually moving toward greater integration with European security arrangements, which would allow for participation in the EU rapid reaction force and NATO’s Partnership for Peace program.

Austria became a member of the UN on 14 December 1955. It is a member of ECE and all the non-regional specialized agencies, and is a party to the Law of the Sea and a member of the WTO.

Since 1960, Austrian troops have been part of UN peacekeeping forces in the Congo, on Cyprus, in the Middle East, and in the former Yugoslavia. Austria belongs to the Council of Europe, the OECD, and the EU. Austria's interest in the Third World is exemplified by membership in the Asian and Inter-American development banks and by its permanent observer status with the OAS.

Vienna has served an important role as a meeting place and headquarters site for a variety of international activities. The headquarters of OPEC, IAEA, UNIDO, and the International Institute for Applied Systems Analysis are located in Vienna, which has also been the site of past USSR-US strategic-arms limitation talks (SALT) and talks on arms reductions in Europe.

## 19 ECONOMY

The state maintains a strong presence in the Austrian economy, although private enterprise continues to occupy a central position. Basic industries, including mineral production, heavy industry, rail and water transport, and utilities, were nationalized during 1946–47 and in 1970 were reorganized under a state-owned holding company, the Austrian Industrial Administration.

Austria's period of unparalleled prosperity lasted from the 1950s through the early 1970s; the economy was characterized by a high rate of growth, modest price increases, and a favorable climate in industrial relations. By 1975, Austrian industry, the single most important sector of the economy, had more than quadrupled in value over 1945. But the general economic slowdown that followed the oil price hike of late 1973 affected Austria as it did other European countries. During 1978–81, annual real growth averaged 2.6%, about standard for the OECD countries, but there was no real growth in 1981 and only 1.1% growth in 1982, as Austria endured its most prolonged recession since World War II. The following years saw an improvement. Between 1984 and 1991, annual real GDP growth averaged 2.8%. In 1992, it was 1.7%. Unemployment, historically low in post-World War II Austria, reached 7% in 1999.

Due in large measure to a global economic downturn and resulting low domestic demand, in 2002 Austria was experiencing its worst slowdown in over a decade. However, in 2001, Austria balanced its budget for the first time in 30 years, in part due to an increase in taxes. (The only countries with higher tax burdens than Austria are Denmark, Finland, and Sweden.) However, the conservative government led by the Austrian People's Party that came into power in November 2002 gave less priority to maintaining a balanced budget, and tax reductions scheduled for 2004 and 2005 were to be partly debt financed. Austria's ratio of government debt to GDP remained high among European countries in 2001, at over 60%. Austria benefitted from its proximity to the faster-growing economies of Central and Eastern Europe in the early 2000s, but was negatively impacted by the low growth in Germany, its largest trading partner. Severe flooding in Central Europe during August 2002 resulted in extra budget outlays for flood damage. Unemployment in Austria remained low among European countries in 2002, although at around 4.8%, the rate was high compared to previous years for the country. Austria profits from a high productivity rate. It has also met with success in privatizing most of its large manufacturing firms. Austria in the early 2000s invested in high-growth industries such as telecommunications, biotechnology, medical and pharmaceutical research, and electronics. Following the mild recession in 1993, Austria's economy—driven by strong exports, investment, and private consumption—expanded an average of 2% throughout the 1990s. Due to the effects of EU membership, inflation, as measured by the consumer price index, eased to an annual average of 2.2% in 1995—the lowest since 1988; by 1998, it had dropped to 0.9%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Austria's gross domestic product (GDP) was estimated at \$226 billion. The per capita GDP was estimated at \$27,700. The annual growth rate of GDP was estimated at 0.6%. The average inflation rate in 2002 was 1.8%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 2% of GDP, industry 33%, and services 65%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$305 million or about \$38 per capita and accounted for approximately 0.2% of GDP. Worker remittances in 2001 totaled \$314.6 million.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$18,671. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 1%. The richest 10% of the population accounted for approximately 22.5% of household consumption and the poorest 10% approximately 2.5%.

## 21 LABOR

In 2001, the labor force numbered 4.3 million workers. An estimated 67% of the workforce was engaged in service, 29% in industry, and agriculture 45%. Foreign laborers, mainly from the former Yugoslavia and Turkey, constitute a significant part of the total workforce. The unemployment rate has risen slightly in recent years, from 3.6% in 1994 to 4.8% in 2002.

Workers were organized into the 13 trade unions affiliated in the Austrian Trade Union Federation (Österreichische Gewerkschaftsbund—ÖGB). This confederation negotiates collective bargaining agreements with the Federal Economic Chamber (Bundeskammer der gewerblichen Wirtschaft) representing employers. In 2002, 52% of the workforce was unionized. The right to strike is recognized, however strikes are rarely used due to cooperation between labor and management. Collective bargaining is prevalent. Disputes over wages, working hours, working conditions, and vacations are settled by a labor court or an arbitration board.

The workweek is set at a maximum of 40 hours, although most Austrian workers put in 38–38.5 hours per week. A 50% differential is generally paid for overtime on weekdays, 100% on Sundays and holidays. There is no national minimum wage. Most employees are covered by collective bargaining agreements, which set wages by industry. The unofficial accepted minimum is \$10,928 per year which provides a family with a decent standard of living. Every employee is entitled to a paid vacation of 30–36 workdays annually, depending on length of employment. The minimum legal age for employment is 15 years, and this is effectively enforced.

## 22 AGRICULTURE

Although small, the agricultural sector is highly diversified and efficient. Most production is oriented toward local consumption.

Of Austria's total area, about 17% was arable in 1998; meadows and pasturelands constituted another 24%. The best cropland is in the east, which has the most level terrain. Farms are almost exclusively family-owned. Most holdings are small or medium-sized and, in many cases, scattered. As of 1999, agriculture employed 5.3% of the labor force. In 2001, agriculture (together with forestry) contributed 2.2% to Austria's total GDP.

The use of farm machinery has been increasing steadily; 352,375 tractors were in operation in 1998, up from 78,748 in 1957. Austria today uses less land and manpower and produces more food than it did before World War II (1939–45). Better seeding and more intensive and efficient application of fertilizers have helped raise farm yields and have enhanced self-sufficiency in foodstuffs. Agriculture is highly protected by the government; overproduction, especially evidenced by recurring grain surpluses, requires a hefty subsidy to be paid by the government in order to sell abroad at market prices. Nevertheless, the Austrian government has been able to maintain farm income, although Austria has some of the highest food costs in Europe.

Chief crops, in terms of sown area and yield, are wheat, rye, oats, barley, potatoes, and sugar beets. Austria is near self-sufficiency in wheat, oats, rye, fruits, vegetables, sugar, and a number of other items. Major crop yields in 1999 included (in tons) sugar beets, 3,000,000; barley, 1,215,000; wheat, 1,285,000; potatoes, 660,000; rye, 223,000; and oats, 150,000. Vineyards yielded 270,000 tons of grapes crushed for wine.

### 23 ANIMAL HUSBANDRY

Dairy and livestock breeding, traditionally the major agricultural activities, account for about three-fifths of gross agricultural income.

Milk, butter, cheese, and meat are excellent, and Austria is self-sufficient in dairy products and in most meats. In 1999, livestock included 3,810,000 hogs, 2,172,000 head of cattle, 384,000 sheep, 74,000 horses, and 14 million poultry. Meat and poultry production in 1999 totaled 821,000 tons. During 1999, Austrian dairy farms produced 3,256,000 tons of milk, 135,000 tons of cheese, and 42,000 tons of butter. In 1999, some 99,000 tons of eggs were produced, which satisfied over 90% of domestic demand. By specializing in quality strains of cattle, hogs, and horses, Austrian breeders have gained wide international recognition. In 2001, exports of beef and veal were valued at almost \$86 million; and milk products, \$129 million.

### 24 FISHING

Fishing is not important commercially, and fish do not constitute a large part of the Austrian diet. Commercial catches consist mainly of carp and trout. The total catch in 1997 was 3,486 tons. Aquacultural production in 1997 was 3,021 tons, of which rainbow trout comprised 2,160 tons. A sizable segment of the population engages in sport fishing.

### 25 FORESTRY

Austria has the largest percentage of forest in the European Union. About 46% of Austria's total area is forested, mostly in the foothills and mountains. About four-fifths of the trees are coniferous, primarily spruce; beech is the most important broadleaf type.

Overcutting during World War II (1939–45) and in the postwar period resulted in a decline in timber production from 9.5 million cu m (335 million cu ft) in 1936 to a low of about 7.1 million cu m (251 million cu ft). From 1950 to 2001, sawn lumber output rose from 4,000 cu m (141,000 cu ft) to 10,260 cu m (362,200 cu ft). Total roundwood yield was 19.5 million cu m (688 million cu ft) in 2001. Bark beetle infestations affected production in 1994–95. In 2000, about 7.75 million cu m (274 million cu ft) of roundwood was processed, almost entirely softwood lumber. Particleboard production in 2000 was estimated at 1.7 million cu m (60 million cu ft), with much of it exported within the EU countries. To prevent overcutting, export restrictions have been introduced, and reforestation is widely promoted. Exports of raw timber and cork are supplemented by exports of such forestry products as paper, cardboard boxes, prefabricated houses, toys, matches, turpentine, and volatile oils.

In 2001, exports of wood products totaled \$4.18 billion, eighth in the world.

### 26 MINING

After a period of postwar expansion, mineral production has stagnated in recent decades, and metals mining continues to decline, because of high operating costs, increased foreign competition, low ore grades, and environmental problems. All the metal mines in the country were closed, except an iron ore operation at Erzberg (producing 1.8 million tons of iron ore and concentrate in 2000) and a tungsten operation at Mittersill, which was the West's largest underground tungsten mine. Most of the growth in the mineral resources area was in the production of industrial minerals, the area in which future mining activities will most likely be concentrated, mostly for domestic consumption.

Austria produces 2.5% of the world's graphite, ranking 10th in the world, and is one of the world's largest sources of high-grade graphite. In 2000, estimated output was 12,000 tons, down from 30,000 in 1996. The country produces 1.6% of the world's talc, ranking ninth, with a reported output in 2000 of 133,060 tons of crude talc and soapstone. The country's only producer of talc, Luzenac Naintsch AG, operated three mines, in the Styria region, and produced a range of talc, chloritic talc, dolomite talc, and chlorite-mica-quartz ores.

Other minerals, with 2000 output in tons, include: limestone and marble, 23,824,000; dolomite, 7,152,000, for the domestic cement industry, along with calcite and limestone; gypsum and anhydrite, 946,000; brine salt, 400,000 (salt mines are owned by the government, with plans to privatize the operations); tungsten, 1,600; pumice (trass), 3,961; and crude kaolin, 119,000, down from 298,000 in 1998. Gold production in 2000 was 100 kg. Crude magnesite production was reported at 726,000 tons in 2000.

Lignite production has been declining since 1963, when output was 6,053,000 tons, reaching 1,110,000 tons in 1996. Production of bituminous coal declined steadily after World War II, and in 1968 ceased altogether. The government introduced a new privatization plan in 2000, having completed a 10-year privatization program in 1997.

### 27 ENERGY AND POWER

Austria is one of the foremost producers of hydroelectric power in Europe. The most important power facilities are publicly owned; 50% of the shares of the large private producers are owned by provincial governments.

In 2000, net electricity generation was 58.8 billion kWh, of which 28.5% came from fossil fuels, 68.6% from hydropower, none from nuclear energy, and the remainder from other sources. In the same year, consumption of electricity totaled 54.8 billion kWh. Total installed capacity at the beginning of 2001 was 14.2 million kW. In 2000 petroleum accounted for 39% of energy consumption, natural gas 20%, coal 10%, nuclear energy 0%, and hydroelectric power 31%. During the winter, when there is less flowing water for hydroelectric power, domestic electricity demands must be supplemented by imports from neighboring countries.

Oil, first produced in 1863, is found both in Upper Austria, near Wolfsegg am Hausruck, and in Lower Austria, in the vicinity of Vienna. After reaching a peak of about 3,700,000 tons in 1955, oil production gradually declined to 22,000 barrels per day in 2000. Natural gas production was 1.698 billion cu m (60 billion cu ft) in 1998, far short of domestic needs; consumption amounted to 6.862 billion cu m (242 billion cu ft) in that year.

### 28 INDUSTRY

Industrial output has increased vastly since the beginning of World War II and contributed 33% of the GDP (including

mining) in 2002. In 1946, the federal parliament nationalized basic industries. Major parts of the electric and electronics, chemical, iron and steel, and machinery industries remained state controlled until the 1990s, when the Austrian government embarked upon a privatization program. As of 2002, the steel, aluminum, and petroleum industries were majority-owned by private shareholders. Other privatizations taking place were the Austrian tobacco company, the Vienna airport company, and Telekom Austria.

Iron and steel production, greatly expanded its output after 1937. In 1992, production of crude steel reached 3,953,107 tons, while rolled steel amounted to 3,435,180. A total of 155,403 automobiles were manufactured in 2001 and 24,988 heavy trucks were produced in 2000.

The most important sectors of the textile industry are embroidery, spinning, weaving, and knitting. The value of textile production in 1992 was \$33,097 million. Some 19,241 tons of cotton yarn were produced in 1992.

The chemical industry, which was relatively unimportant before World War II, now ranks third in value of production. In 1992, it produced 182,595 tons of fertilizers, 115,050 tons of rubber and asbestos products, 105,379 tons of paints and coating compounds, 178,035 tons of soaps and scouring agents, and more than \$12 billion worth of pharmaceuticals. Petroleum refinery products (in tons) included fuel oil, 1,821,275; diesel oil, 3,242,282; gasoline, 2,458,365; and kerosene, 391,334.

Other leading industries, in terms of production value and employment, are electrical and electronic machinery and equipment, pulp and paper, ceramics, and especially foodstuffs and allied products. Austria has always been famous for its skilled craftsmen, such as glassblowers, goldsmiths, jewelers, lacemakers, potters, stonemasons, and wood-carvers.

The country is taking steps to change its image from one in which traditional "rust belt" industries such as steel and heavy engineering dominate. In 2003, the electronics, biotechnology, and medical and pharmaceutical sectors held potential for high growth. Investment in the construction industry increased, especially after the severe flooding of August 2002.

## 29 SCIENCE AND TECHNOLOGY

Numerous research institutes in Austria play an important role in conducting and coordinating advanced agricultural, medical, scientific, and technical research. The Austrian Research Council supports and coordinates scientific research. The major learned society is the Austrian Academy of Sciences (Founded in 1847 and headquartered in Vienna) The Austrian Science Foundation (Founded in 1967), and the Austrian Industrial Research Fund together form the Austrian Research Council, which supports and coordinates scientific, applied, and industrial research and development and advises Federal and state governments on scientific matters. The Natural History Museum and the Trade and Industrial Museum of Technology, both in Vienna and founded in 1748 and 1907, respectively, each have large libraries.

Austria has 11 universities offering training in basic and applied sciences and 13 federal colleges of technology. In 1987-97, science and engineering students accounted for 29% of college and university enrollments. In the same period, total research and development expenditures in Austria amounted to 1.5% of GNP, while 1,627 scientists and engineers and 812 technicians per million people were engaged in research and development. In 1998, high-tech exports were valued at \$5.9 billion and accounted for 12% of manufactured exports.

## 30 DOMESTIC TRADE

Vienna is the commercial, banking, and industrial center. Railroad lines passing through it connect Austria with all neighboring countries. Vienna is also the major, but not the only, distribution center; every large provincial city is the hub of marketing and distribution for the surrounding area. Most items are sold in privately owned general or special stores, but

consumer cooperatives are also active. Though small specialty shops have accounted for about 90% of retail establishments, larger outlets and shopping malls are becoming popular. In 2000, there were about 126 shopping centers reporting a total of \$5.7 billion in sales, an increase of 7.6% from the previous year.

Normal business hours are from 8 or 9 AM to 5 or 6 PM, Mondays through Fridays. Banks usually stay open from 8 AM to 12:30 PM and from 1:30 to 3 PM (5:30 PM on Thursday). Retail establishments are governed by stricter rules than in the United States. Sunday hours are generally not permitted. Usual hours are from 6 AM to 7:30 PM Monday through Friday.

Advertising is displayed in newspapers, periodicals, and trade journals, and on posters on public conveyances, public stands, and billboards. Considerable advertising is done in cinemas. International fairs are held every spring and autumn in Vienna, and specialized fairs are held regularly in Dornbirn, Graz, Innsbruck, Klagenfurt, Ried im Innkreis, and Wels.

## 31 FOREIGN TRADE

Austria depends heavily on foreign trade. During the Cold War, the government consistently maintained strong ties with the West while being careful to preserve the country's neutrality. In 1972, Austria achieved association with the EEC without encountering much Soviet opposition. Austria formerly had long-term bilateral trade agreements with CMEA nations, and played an important role as a mediator in East-West trade dealings. It applied for membership in 1989.

Austria's commodity trade pattern has changed significantly since the 1930s. Because of its increasing self-sufficiency in agricultural production, expansion in output of certain basic industries, and development of new industries, Austria is no longer as dependent as in pre-World War II years on imports of food and raw materials.

The rise in industrial capacity has resulted in an extensive rise in export volume, with finished and semi-finished goods accounting for well over 80% of the total export value. The major industry and export commodity in Austria is the automobile and its components, made up of plates and sheets of iron or steel, internal combustion engines and piston parts, motor vehicle parts and accessories, and complete passenger motor cars. These exports comprise a large portion (10.3%) of Austria's exports, while machinery and paper products continue to be important commodities (11.9% and 5.0%). Medicinal and pharmaceutical product exports are increasing, but are still low compared to those of the automobile industry (2.7%).

In 2000 Austria's imports were distributed among the following categories:

Consumer goods	19.5%
Food	5.2%
Fuels	5.7%
Industrial supplies	27.7%
Machinery	24.7%
Transportation	16.9%
Other	0.3%

Approximately 63% of Austria's trade is with EU nations. Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	20,072	28,808	-8,736
Italy	5,269	5,458	-188
Switzerland	3,627	1,953	1,647
United States	2,952	3,568	-616
United Kingdom	2,677	1,917	760
France	2,672	2,892	-220
Hungary	2,397	1,871	526
Czech Republic	1,627	1,567	60
Spain	1,616	953	663
Netherlands	1,397	2,025	-628



### 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Austria's exports was \$70 billion while imports totaled \$74 billion resulting in a trade deficit of \$4 billion.

The International Monetary Fund (IMF) reports that in 2001 Austria had exports of goods totaling \$66.9 billion and imports totaling \$68.2 billion. The services credit totaled \$32.9 billion and debit \$31.5 billion.

Foreign direct investment continued to increase at a fast pace in the early 2000s. Foreign direct investment grew in 2000 by \$9.2 billion, the highest amount in the post-World War II era. This high figure was due in part to the takeover of Bank Austria, Austria's largest bank, by the German Hypo-Vereinsbank.

The following table summarizes Austria's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-4,103</b>
Balance on goods	-1,328
Balance on services	1,361
Balance on income	-2,995
Current transfers	-1,140
<b>Capital Account</b>	<b>-514</b>
<b>Financial Account</b>	<b>1,809</b>
Direct investment abroad	-3,046
Direct investment in Austria	5,898
Portfolio investment assets	-11,867
Portfolio investment liabilities	16,583
Other investment assets	-6,172
Other investment liabilities	712
<b>Net Errors and Omissions</b>	<b>919</b>
<b>Reserves and Related Items</b>	<b>1,888</b>

### 33 BANKING AND SECURITIES

The Austrian National Bank (Österreichische Nationalbank), originally opened on 2 January 1923 but taken over by the German Reichsbank in 1938, was reestablished on 3 July 1945. The bank is a corporation with capital shares fixed by law at \$150 million; 50% of the shares are, by law, owned by the government. The central bank and the bank of issue, it preserves the domestic purchasing power of the Austrian currency and its value in terms of stable foreign currencies, and controls external transactions affecting the balance of payments. It also sets reserve requirements for credit institutions.

The Austrian banking system also includes joint-stock banks, banking houses, and private banks, as well as postal savings banks, private savings banks, mortgage banks, building societies, and specialized cooperative credit institutions. The most important credit institutions are the joint-stock commercial banks, the two largest of which, the Creditanstalt-Bankverein and the Österreichische Länderbank, were nationalized in 1946; shares representing 40% of the nominal capital of the two were sold to the public in 1957.

On 12 January, 1997, the coalition partners, after long and intensive negotiations, agreed to sell Credit and staff-Bankverein to the indirectly state-owned Bank Austria, which is dominated by the senior coalition party, the Social Democratic Party (SPO). The sale created a financial and industrial giant in Austria, which will hold about one-quarter of the assets of all financial institutions. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$52.9 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$171.2 billion.

A special decree of Empress Maria Theresa (1 August 1771) provided for the establishment of a stock exchange in Vienna. From the mid-19th century to the beginning of World War I, it was the main capital market of middle and eastern Europe, and

from 1918 to 1938, it had continuous international importance as an equity market for the newly founded nations originating from the former monarchy. The exchange also deals in five Austrian and seven foreign investment certificates. The Austrian Traded Index has grown steadily in the past few years, growing 8.71% in 2002, and averaging a growth rate of 10.15% in the past five years.

### 34 INSURANCE

Insurance in Austria is regulated by the Ministry of Finance under legislation effective 1 January 1979. Motor-vehicle third-party liability, aviation accident and third-party liability, workers' compensation, product liability, professional indemnity for certain professions, and nuclear-risk liability coverages are compulsory. Armed sportsmen, accountants, pipeline operators, and notaries are also required to carry liability insurance. In 1989, Austria had 70 insurance companies, and the following year premiums totaled \$1075.4 per capita, or 5% of the GDP. At the end of 1992, \$769 billion worth of life insurance was in force.

### 35 PUBLIC FINANCE

The government's proposed annual budget is submitted to the Nationalrat before the beginning of each calendar year (which coincides with the fiscal year). Within certain limits, the Finance Minister can subsequently permit the maximum expenditure levels to be exceeded, but any other excess spending must receive the approval of the Nationalrat in the form of a supplementary appropriations bill or an amendment to the budgetary legislation. Annual expenditures, which in the early 1960s rose markedly owing to increases in defense expenditures, social services, federal operations, and capital expenditures, were less expansionary in 1965–70. During the 1970s, the annual budget again began to rise, expenditures increasing at a faster rate than revenues, but by the mid-1980s, both expenditures and revenues were increasing at about the same rate. As a result of a mini-recession in 1993, the budget deficit widened to 4.7% of GDP in 1994. The increase in the budget deficit was mainly due to the government's decision to let automatic stabilizers work, when it became apparent that business activity was slowing down. Raising budget deficits present an economic challenge to the government. Despite these problems, Austria managed to meet the criteria necessary to join the European Monetary Union (EMU) in 1999.

The US Central Intelligence Agency (CIA) estimates that in 2001 Austria's central government took in revenues of approximately \$53 billion and had expenditures of \$54 billion. Overall, the government registered a deficit of approximately \$1,000 million. External debt totaled \$12.1 billion.

The following table shows an itemized breakdown of government revenues. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	53,000
Tax revenue	93.0%	49,315
Non-tax revenue	5.9%	3,127
Capital revenue	0.3%	157
Grants	0.8%	402

### 36 TAXATION

The income tax for individuals ranged in 1996 from 10% on annual taxable income of up to \$50,000 to 50% on taxable income of \$700,000 or more, with tax relief available for individuals. Payroll withholding tax is in effect. Taxes are levied on corporations (34% of profits, less deductions and credits), trade income, real estate, inheritance, dividends, gifts, and several miscellaneous services and properties. A value-added tax was introduced 1 January 1973 at a basic rate of 16%; the standard

rate in 1996 was 20%. A reduced rate of 10% applied to basic foodstuffs, farm products, horticultural and fishery products, books and newspapers, rental of immovable property, tourism, and some professional services. There was also an augmented rate of 32% on automobiles, airplanes, and ships.

Direct taxes in Austria include a corporate tax of 34%, applicable to both domestic and foreign companies, and on both distributed and reinvested profits; and a progressive income tax with five brackets: 0% on the first increment up to about \$3,600; 21% on the next increment up to about \$7,200; 31% on the next increment up to about \$21,000; 41% on the next increment up to about \$50,000; and 50% on income above \$50,000. Capital gains are taxed at 34%. Dividend income is taxed at 25%, withheld at the source. There is no wealth tax. In accordance with EU guidelines, tax exemptions and reductions are included in incentive packages for investment in economically depressed and underdeveloped areas along Austria's eastern border.

Income tax for an individual in 2002 was according to a four-bracket progressive schedule: 21% (on taxable income from €3,640 to €7,270; 31% (€7,270 to €21,800); 41% (€21,800 to 50,870); and 50% above €50,870. Married people are taxed separately.

The main indirect tax in Austria is its value-added tax (VAT) introduced 1 January 1973 at a basic rate of 16%. In 2002 the standard rate was 20%. A reduced rate of 10% applied to basic foodstuffs, farm products, horticultural and fishery products, books and newspapers, rental of immovable property, tourism, and some professional services. There was also an augmented rate of 32% on automobiles, airplanes, and ships, with a standard rate of 20%, and a reduced rate of 10%.

### 37 CUSTOMS AND DUTIES

Austria is committed to a program of progressive trade liberalization. As a member of the European Union, non-EU imports are covered by the EU's common tariff policy, the TARIC (integrated tariff). For most manufactured goods, this tariff results in the addition of a 3.5% duty. Import quotas affect other imports such as raw materials or parts. In addition, imports are levied an import value-added tax, which is 20% for everything except food products, for which it is 10%.

Import licenses are required for a variety of products, including agricultural produce and products, tobacco and tobacco products, salt, war materials, and poisons. An automatic licensing procedure is applied to certain products. Free-trade zones are located at Graz, Linz, Bad Hall, and Vienna.

### 38 FOREIGN INVESTMENT

Between 1948 and 1954, an estimated \$4 billion was invested in the Austrian economy. Austria raised foreign capital largely through loans rather than as direct investment. Many post-World War II projects were financed by US aid; US grants and loans in the postwar period totaled about \$1.3 billion before they began to taper off in 1952. To stimulate domestic and foreign investment, especially in underdeveloped areas of Austria, two specialized investment credit institutions were founded in the late 1950s.

Cumulative foreign direct investment (FDI) in Austria rose from \$600 million in 1967 to over \$14 billion in 1992. European Union membership has had a positive impact on foreign investment and has helped to lower inflation. The annual inflow of FDI from 1996 to 1999 averaged \$3.7 billion. In 2000, the FDI inflow rose to a post-World War II record of about \$9 billion due to the take over of Austria's largest bank by the German Vereinsbank. The total number of firms involved in cross-border merger acquisitions was 90 in 2000, up from 54 in 1999 and 49 in 1998.

By 1998 (the latest sectoral data available), the main areas for FDI were real estate (\$5.2 billion, 28.5%), trade (\$3.6 billion,

20%), banking (\$2.5, 13%), petroleum and chemicals (\$1.8 billion, 10%), transport and communications (\$1.6 billion, 8.5%), metals and machinery (\$988 million, 5.4%), paper and wood (\$634 million, 3.5%), vehicles (\$307, 1.67%), and food processing (\$291 million, 1.6%). In all, about 26% went to industry and the rest to the services sector. Close to 78% of annual FDI inflows come from five sources: Germany, 43% to 51%; Switzerland-Liechtenstein, 10% to 17%; the Netherlands, 6% to 9%; the United States, 6% to 8%; and Italy, 3% to 8%.

The Austrian government welcomes productive foreign investment, offering a wide range of assistance and incentives at all levels ranging from indirect tax incentives to direct investment grants. Of particular interest are investments in industries that are seeking to create new employment in high technology, promoting capital-intensive industries linked with research activities, improving productivity, replacing imports, increasing exports, and are environmentally "friendly." Austria has strict environmental laws, rejects nuclear energy, and has tight restrictions on biotech products. Full foreign ownership is permitted, except in nationalized sectors, and such enterprises have the same rights and obligations as domestic companies.

The total value of FDI stock in 2000 equaled \$30.9 billion, about 15% of GDP. In 2001, inflow of FDI was close to \$6 billion.

Annual FDI outflow from Austria came to about \$3.3 billion in both 1999 and 2000, up from \$2.7 billion in 1998 and about \$1.9 billion in both 1996 and 1998.

### 39 ECONOMIC DEVELOPMENT

The federal government held a majority share in two of the three largest commercial banks and all or most of the nation's electricity, coal and metal mining, and iron and steel production, as well as part of Austria's chemical, electrical, machine, and vehicle industries. The republic's share in the nationalized industries was handed over on 1 January 1970 to the Austrian Industrial Administration Co. (Österreichische Industrieverwaltungs-Aktiengesellschaft—ÖIAG), of which the government was the sole shareholder. The ÖIAG, in line with the government's industrialization program, regrouped the nationalized industries into six sectors: iron and steel; nonferrous metals; shipbuilding and engineering; electrical engineering; oil and chemicals; and coal. This was later regrouped into five sections: steel; metals; machinery and turnkey operations; electronics, petroleum, petrochemicals and plastics; and chemicals, pharmaceuticals, and fertilizers.

The nationalized establishments operated according to free-enterprise principles and did not receive tax concessions. Private investors were subsequently allowed to buy shares in them. The government, however, maintained voting control in these transactions. The legislation providing for ÖIAG's reorganization of the iron and steel industry included codetermination provisions granting employees the right to fill one-third of the seats on the board of directors. The postal, telephone, and telegraph services and radio and television transmission were state monopolies, as was the trade in tobacco, alcohol, salt, and explosives.

During the 1970s, the government placed new emphasis on centralized economic planning. Key elements in the new policy were the planning of public investment, selective promotion of private sector investment, coordinated expansion of the energy sector and state-owned industry, and assistance for the structural improvement of agriculture. Special emphasis was given to the reform of the handicrafts industry.

In 1986, the ÖIAG was renamed the Österreichische Industrieholding AG, and a process of restructuring and privatization took place in 1993. In 1996, the post and telecommunications monopoly was privatized, and other companies were split up and taken over by foreign, and especially

German, companies. The agricultural sector has gone through substantial reform through the European Union's (EU's) common agricultural policy. Since becoming an EU member in 1995, Austria's economy has become more integrated with the EU's other member countries, and trade with central and east European countries has increased. Industry remained strong in the 1990s and into the early 2000s.

#### 40 SOCIAL DEVELOPMENT

Austria has one of the most advanced and comprehensive systems of social legislation in the world. The General Social Insurance Bill of 1955 unified all social security legislation and greatly increased the scope of benefits and number of insured. All wage and salary earners must carry sickness, disability, accident, old age, and unemployment insurance, with varying contribution levels by employer and employee for each type of insurance. Health insurance is available to industrial and agricultural workers, federal and professional employees, and members of various other occupational groups. For those without insurance or adequate means, treatment is paid for by public welfare funds.

Unemployment benefits mostly range from 40–50% of previous normal earnings. After three years' service, regular benefits are paid up to between 20 and 30 weeks; thereafter, for an indefinite period, a worker, subject to a means test, may receive emergency relief amounting to 92–95% of the regular benefit. Work injury laws were first enacted in 1887. Citizens are eligible for old age pensions after age 65 (men) and age 60 (women) if they have 35 years of contributions paid or credited.

Employers must contribute 4.5% of payroll earnings to a family allowance fund. Family allowances are paid monthly, depending on the number of dependent children, with the amount doubled for any child who is severely handicapped. The state provides school lunches for more than 100,000 children annually. In addition, it administers the organization of children's holiday programs and provides for the care of crippled children, for whom there is a state training school. The state also grants a special birth allowance and a payment for newlyweds setting up their first home; unmarried people establishing a common household may apply for tax remission. The government provides maternity benefits, takes care of destitute old people, and provides for war victims and disabled veterans. Administration of social insurance is carried out in the provinces by autonomous bodies in which both employers and employees are represented. Payment is also made to victims of political persecution during the Nazi era and to victims of violent crime.

Women make up an increasing percentage of the work force. Since 1998 they have been allowed in the military. A law passed the same year mandated that the legal prohibition against women working at night be lifted by 2001, in response to a ruling by the European Court of Justice, which is requiring that Austria adapt its legislation to meet European Union regulations. Austrian women still earn only 70% as much as men. Children's rights are fully protected by law. While the number of women in government is low in relation to the overall population, there are female members of parliament, cabinet ministers, state secretaries, town councilors, and mayors. A 1975 federal law provides for complete equality between husband and wife in maintaining the household and raising children. It is believed that violence against women is a widespread problem, and cases generally remain unreported.

The constitution provides for the freedoms of religion and assembly, and the government respects these rights. A growing problem is right-wing extremism and the emergence of neo-Nazi groups. Racial violence against ethnic minorities in Austria is evident. The right-wing Freedom Party, known for its strong anti-immigration stance, prompted widespread concern among Austria's European neighbors.

#### 41 HEALTH

Austria's federal government formulates health policy directive and public hygiene standards are high. The country spent an estimated 8.2% of GDP on health care annually as of 1999 and, in recent years, has expanded its public health facilities. Virtually every Austrian has benefits of health insurance. In principle, anyone is entitled to use the facilities provided by Austria's health service. The costs are borne by the social insurance plan, or in cases of hardship, by the social welfare program.

As of 1999, there were an estimated 3 physicians and 8.7 hospital beds per 1,000 people. In 1998, there were 330 hospitals, with 72,078 beds. There were 33,734 doctors and dentists and 1,534 midwives in 1998 and 5,193 psychiatrists in 1999. Life expectancy at birth in 2000 was 78 years. The infant mortality rate was 5 per 1,000 live births. In 1999, 6% of births were low weight. Improvement has been made in lowering the under age five mortality rate from 43 children per 1,000 in 1960 to 5 per 1,000 in 2000. As of 1999, an estimated 90% of married women (ages 15–49) used contraceptives.

As of 1999, Austria immunized its one-year-old children as follows: diphtheria, pertussis, and tetanus (90%) and measles (90%). The overall death rate in 2002 was 10 per 1,000 people, and in 1999 there were 16 cases of tuberculosis per 100,000 people. The HIV prevalence rate in 1999 was 0.2 per 100 adults. By 1997, 7,500 cases of AIDS had been reported. Vienna's medical school and research institutes are world famous; spas (with thermal springs), health resorts, and sanatoriums are popular among Austrians as well as foreigners.

#### 42 HOUSING

During the First Republic (1919–38), Vienna and several other Austrian municipalities supported a progressive housing policy and built model apartment houses for workers. From the end of World War II until 1967, 157,386 small homes were built under the Federal Accommodation Fund, and 75,663 damaged homes were repaired under the Housing Reconstruction Fund. A system of subsidies for public housing has since been decentralized, and control turned over to local authorities. The Housing Improvement Act of 1969 provided for state support for modernization of outdated housing.

In 1985, 41,153 new units were built, bringing the number of all dwellings in the country to 3,217,389. As of 1990, 25% of Austria's housing stock had been built before 1919; 19% between 1971 and 1980; 18% between 1961 and 1970; 15% between 1945 and 1960; 13% after 1981; and 10% between 1919 and 1944. About 53,000 new dwellings were completed in 2000.

#### 43 EDUCATION

The Austrian educational system has its roots in the medieval monastic schools that flourished toward the end of the 11th century. The present state education system goes back to the school reforms introduced by Maria Theresa in 1774. In 1869, the Imperial Education Law unified the entire system of compulsory education.

In 1962, Austria's education system was completely reorganized under a comprehensive education law, and compulsory education was extended from eight to nine years. Since 1975, all schools are coeducational and education at state schools is free of charge. Financial support is provided for postsecondary schooling. Primary education lasts for four years. Disabled students either attend special schools or are mainstreamed into regular classrooms. After primary education, pupils may either attend a general secondary school (*Hauptschule*) or an academic secondary school, which covers two four-year courses of study.

Students may also attend an intermediate or higher vocational school for a period of five years. Those who complete their

studies at secondary or higher vocational school are qualified to attend the universities. At the primary level in 1997, 381,927 pupils and 31,251 teachers were registered with 3,703 schools. Student-to-teacher ratio stood at 12 to 1. At the secondary level in the same year, there were 79,806 teachers and 793,485 pupils enrolled.

Austria maintains a vigorous adult education system. Almost all adult education bodies owe their existence to private initiative. The Ministry of Education, under the auspices of the Development Planning for a Cooperative System of Adult Education in Austria, has joined private bodies in setting up projects for enhancing the quality of adult education programs. As of 2002, the adult literacy rate was estimated at 98%.

There are 12 university-level institutions and six fine-art colleges offering 430 subjects and about 600 possible degrees.

In 1997, there were 240,632 students enrolled full time in universities and all higher-level institutions. The teaching staff numbered 26,356. As of 1999, public expenditure on education was estimated at 6.3% of GDP.

#### 44 LIBRARIES AND MUSEUMS

Austria is rich in availability of large library collections and is filled with strong, unique collections. The largest and most important of Austria's 2,400 libraries is the Austrian National Library, which contains more than three million volumes. It includes eight main collections: printed books, manuscripts, music, maps, papyri, portrait and picture archives, literature archives, and a theater collection. The National Library serves as a center for the training of professional librarians, prepares the Austrian national bibliography, and provides a reference service for Austrian libraries. The largest university libraries are the University of Vienna (5.5 million volumes), Graz University (three million), and Innsbruck University (1.4 million). Austria also has several hundred private libraries, such as the renowned libraries in the monasteries at Melk and Admont.

The Haus-, Hof-, and Staatsarchiv, founded in Vienna in 1749, was combined in 1945 with the Allgemeine Verwaltungsarchiv to form the Austrian State Archives. The Archives' collection ranks as one of the most important in the world, with more than 100,000 manuscripts and documents, some dating as far back as the year 816. Most notable are the state documents of the Holy Roman Empire—including those of the Imperial Court Council (from 1555), the Imperial Court Chancellery (from 1495), and the Mainz Imperial Chancellery (from 1300); documents of the subsequent Austrian State Chancellery; and those of the Austro-Hungarian Foreign Ministry.

There are over 700 museums in Austria, including art museums, archaeology and history museums, science and technology museums, and regional museums. There are eight recognized historical sites in the country. The most important museums had their origins in the private collections of the House of Habsburg. The Museum of Fine Arts (Kunsthistorisches Museum) in Vienna (1871) contains a vast collection of Flemish, Italian, and German paintings by old masters. It also houses distinguished collections of Egyptian and Oriental objects, classical art, sculpture and applied art, tapestries, coins, and old musical instruments. The Albertina Museum houses the world's largest graphic art collection, including the most extensive collection in existence of the works of Albrecht Dürer. The Secular Treasury (Schatzkammer) houses the jewels and insignia of the Holy Roman Empire and of all the Austrian emperors. The numerous collections formerly in the possession of the imperial court have in large part been brought together for display in the Natural History Museum, the Museum of Fine Arts, and the Hofburg (Innsbruck). Vienna's Schönbrunn Palace contains a collection of imperial coaches from the Habsburg court. The Austrian Gallery in Belvedere Castle (Vienna), formerly the summer palace of Prince Eugene of Savoy, houses unique

examples of medieval Austrian art as well as works of 19th- and 20th-century Austrian artists. The Museum of Modern Art was opened in Vienna's Palais Liechtenstein in 1979; incorporated into it was the Museum of the 20th Century, founded in 1962. Also of interest is Vienna's Lipizzaner Museum, featuring the city's famous white horses, and a museum of Sigmund Freud's apartment and office.

There are also other castles, manor houses, monasteries, and convents, many of which date from the Middle Ages and which are of interest for their architecture as well as for their contents. Important scientific collections are housed in the Natural History Museum, the Museums of Anthropology and Folklore, and the Technical Museum, all in Vienna; the Joanneum, in Graz; the Ferdinandeum, in Innsbruck; the Carolino Augusteum and the House of Nature, in Salzburg; and the Folk Museum, in Hallstatt, Upper Austria, which contains local prehistoric discoveries dating from the 4th and 3rd centuries BC. Salzburg has two historical museums dedicated to Mozart—the house where he was born and another house in which he lived.

#### 45 MEDIA

The Austrian Post and Telegraph Administration operates all telephone, telegraph, teletype, and postal services. In 2001, 4,000,000 main line telephones were in use (including analog, IS digital network connections, and asymmetric digital services). The same year, there were about 6,000,000 mobile cellular phones. The Austrian Broadcasting Corp., a joint company organized in 1957 and reformed in 1967 and 1974 to ensure its political and financial autonomy, administers the nation's broadcasting system. It is governed by representatives from the broadcast industry, the government, and members of the public sector. It broadcasts nationally over 3 radio and 2 television networks, and also provides a shortwave news service in German, English, French, and Spanish. As of 2001, there were a total of about 2 AM and 160 FM radio stations in the country and 45 television stations. About 77% of citizens listen to state-run radio stations. As of 1997 there were about 6,800,000 radios and 4,250,000 television sets.

As of 2002, Austria had about 22 major papers distributed 4 times a week or more. Vienna accounts for about half of total readership. Many dailies are affiliated with political parties. The leading newspapers (with their average midweek circulations for 2002) are:

	ORIENTATION	CIRCULATION
VIENNA		
<i>Neue Kronen Zeitung</i>	Independent	510,000
<i>Kurier</i>	Independent	334,000
<i>Die Presse</i>	Independent	105,000
<i>Der Standard</i>	NA	95,000
PROVINCES		
<i>Kleine Zeitung</i> (Graz)	Independent	177,000
<i>Oberösterreichische Nachrichten</i> (Linz)	Independent	123,000
<i>Tiroler Tageszeitung</i> (Innsbruck)	Independent	103,600
<i>Neue Zeit</i> (Graz)	Social Democrat	66,100
<i>Salzburger Nachrichten</i> (Salzburg)	Independent	99,100

The leading periodicals include the weeklies *Wochenpresse*—*Wirtschaftswoche* and *Profil* and the monthly *Trend* which had a circulation of 95,000 in 1995.

As of 2000, there were 37 Internet service providers serving about 3 million customers.

Freedom of the press is constitutionally guaranteed and there is no state censorship; the Austrian Press Council is largely concerned with self-regulatory controls and the effective application of a code of ethics. The Austrian Press Agency is independent of the government and operates on a nonprofit basis; most major newspapers share in its financing.

## 46 ORGANIZATIONS

The Federal Economic Chamber, including representatives of commerce, industry, trade, and transport, has official representatives in most countries. Every province has an economic chamber organized in the same way as the federal chamber. District chambers of agriculture are combined into provincial chambers, which are further consolidated in a national confederation. Provincial chambers of labor are combined in a national chamber. The Federation of Austrian Industrialists, with an organizational membership of almost 5,000, is subdivided into departments for trade, industry, finance, social policies, and communications, with sections for press relations and organization. There are associations of bankers, insurance companies, and publishers, as well as other commercial and professional groups.

Approximately 10,000 sports clubs are affiliated with the Austrian Federal Sports Organization, which comprises the Federal Sports Council and the Federal Specialist Sports Council which represents Austria's 49 recognized specialist sports associations.

The Austrian Union of Students (AUS), the national university student coordinating body, is incorporated under Austrian federal public law to serve as a legal representative body for Austrian university students through Federal Ministries responsible for higher education and through the National Parliament. The secretariat of the National Unions of Students of Europe (ESIB) is housed within the AUS. Other youth organizations, representing a variety of concerns and interests, include the Austrian Socialist Youth Organization, Young Austrian People's Party, Union of Liberal Youth, Communist Youth of Austria, Austrian Catholic Youth Group, Cartel Association of Austrian Catholic Student Unions, Protestant Youth Welfare Organization, Protestant Student Community, Austrian Trade Union Youth Organization, Austrian Friends of Nature Youth Organization, and Austrian Alpine Youth Organization. Scouting organizations are also present.

Austria has a large number of professional and scholarly associations, as well as several groups dedicated to the support and promotion of various arts and sciences. The latter include the Association for Sciences and Politics, the Austrian Academy of Sciences, the Austrian Association of Music, the Austrian P.E.N. Center, and the Austrian Science Fund. Organizations of Greenpeace, The Red Cross, and Amnesty International are also present.

## 47 TOURISM, TRAVEL, AND RECREATION

Austria ranks high among European tourist countries. It has a year-round tourist season: in winter, tourists come to the famous skiing resorts and attend outstanding musical events in Vienna; in summer, visitors are attracted by scenery, sports, and cultural festivals, notably in Vienna and Salzburg. Of the 4,000 communities in Austria, nearly half are considered tourist centers.

Tourist attractions in the capital include 15 state theaters and the Vienna State Opera (which also houses the Vienna Philharmonic); the Vienna Boys' Choir; St. Stephen's Cathedral; the Schönbrunn and Belvedere palaces; and the Spanish Riding Academy, with its famous Lippizaner stallions. Just beyond the city boundary are the Vienna Woods, with their picturesque wine taverns.

About 40 or 50 towns and villages qualify as major resorts for Alpine skiing, and Innsbruck has been the site of two Winter Olympics, in 1964 and 1976. Mountaineering is another Austrian specialty, with Austrian climbers having scaled high peaks all over the world. Austrians have frequently taken titles in world canoeing championships. Soccer is a very popular sport. Austria also puts on a number of prominent annual events for cyclists. Probably the most challenging tour on the amateurs'

program is the "Tour d'Autriche," which has been held every year since 1949. This race through Austria's mountains covers a total distance of almost 1,500 kilometers. Motor racing, motorcycle racing and speedway racing are also extremely popular sports in Austria.

Foreign tourist traffic is the leading single source of foreign exchange, and tourism is a major contributor to the Austrian economy. An estimated 17,982,000 foreign visitors arrived in Austria in 2000. Receipts from tourism amounted to US\$10 billion. That year there were 304,928 rooms in hotels, inns, and pensions with 642,623 beds and a 35% occupancy rate.

Visitors entering Austria for a short stay need only a valid passport if from the US or Western European countries, but an Austrian visa is required for visits exceeding three months.

In 2002, the US Department of State estimated the daily cost of staying in Austria at about \$176 to \$206.

## 48 FAMOUS AUSTRIANS

### Political Figures

Monarchs who played a leading role in Austrian and world history include Rudolf I of Habsburg (1218–91), founder of the Habsburg dynasty and Holy Roman emperor from 1273; Maria Theresa (1717–80), who succeeded to the Habsburg dominions by means of the Pragmatic Sanction of 1740; her son Joseph II (1741–90), the "benevolent despot" who became Holy Roman emperor in 1765; Franz Josef (1830–1916), emperor of Austria at the outbreak of World War I; and his brother Maximilian (Ferdinand Maximilian Josef, 1832–1867), who became emperor of Mexico in 1864, ruling on behalf of Emperor Napoleon III of France, and was deposed and executed. Prince Klemens Wenzel Nepomuk Lothar von Metternich (1773–1859), Austrian foreign minister from 1809 to 1848, was the architect of the European balance of power established at the Congress of Vienna in 1815. Adolf Hitler (1889–1945), born in Braunau, was dictator of Germany from 1933 until his death. Leading Austrian statesmen since World War II are Bruno Kreisky (1911–1990), Socialist Party chairman and chancellor of Austria from 1970 to 1983; and Kurt Waldheim (b.1918), Austrian diplomat and foreign minister, who was UN secretary-general from 1971 to 1981 and was elected to the presidency in June 1986.

### Artists, Writers, and Scientists

Austria has produced many excellent artists, writers, and scientists but is probably most famous for its outstanding composers. Beginning in the 18th century and for 200 years, Vienna was the center of European musical culture. Among its great masters were Franz Joseph Haydn (1732–1809), Wolfgang Amadeus Mozart (1756–91), Franz Schubert (1797–1828), Anton Bruckner (1824–96), Gustav Mahler (1860–1911), Hugo Wolf (1860–1903), Arnold Schönberg (1874–1951), Anton von Webern (1883–1945), and Alban Berg (1885–1935). Although born in northwestern Germany, Ludwig van Beethoven (1770–1827) and Johannes Brahms (1833–97) settled in Vienna and spent the rest of their lives there. Composers of light music, typical of Austria, are Johann Strauss, Sr. (1804–49), Johann Strauss, Jr. (1825–99), Dalmatian-born Franz von Suppé (Francesco Ezechiele Ermenegildo Cavaliere Suppe-Demelli, 1819–95), Hungarian-born Franz Lehár (1870–1948), and Oskar Straus (1870–1954). Outstanding musicians are the conductors Clemens Krauss (1893–1954), Karl Böhm (1894–1981), and Herbert von Karajan (b.1908); the pianists Artur Schnabel (1882–1951) and Alfred Brendel (b.1931); and the violinist Fritz Kreisler (1875–1962).

Leading dramatists and poets include Franz Grillparzer (1791–1872), Nikolaus Lenau (1802–50), Ludwig Anzengruber (1839–81), and Hugo von Hofmannsthal (1874–1929). Novelists and short-story writers of interest are Adalbert Stifter (1805–68),

Marie von Ebner-Eschenbach (1830–1916), Arthur Schnitzler (1862–1931), Hermann Bahr (1863–1934), Stefan Zweig (1881–1942), Robert Musil (1880–1942), Hermann Broch (1886–1952), Yakov Lind (b.1927), and Peter Handke (b.1942). Although born in Czechoslovakia, the satiric polemicist Karl Kraus (1874–1936), the poet Rainer Maria Rilke (1875–1926), the novelist and short-story writer Franz Kafka (1883–1924), and the poet and novelist Franz Werfel (1890–1946) are usually identified with Austrian literary life. Film directors of Austrian birth include Max Reinhardt (Maximilian Goldman, 1873–1943), Erich von Stroheim (Erich Oswald Stroheim, 1885–1957), Fritz Lang (1890–1976), Josef von Sternberg (1894–1969), Otto Preminger (1905–86), and Billy Wilder (b.1906). Internationally known performers born in Austria include Lotte Lenya (Karoline Blamauer, 1900–81) and Maximilian Schell (b.1930).

#### Architects and Artists

Two great architects of the Baroque period were Johann Bernhard Fischer von Erlach (1656–1723) and Johann Lucas von Hildebrandt (1668–1745). Three prominent 20th-century painters were Gustav Klimt (1862–1918), Oskar Kokoschka (1886–1980), and Egon Schiele (1890–1918).

#### Physicians

Psychoanalysis was founded in Vienna by Sigmund Freud (1856–1939) and extended by his Austrian colleagues Alfred Adler (1870–1937), Otto Rank (1884–1939), Theodor Reik (1888–1969), and Wilhelm Reich (1897–1957). Eugen Böhm-Bawerk (1851–1914) and Joseph Alois Schumpeter (1883–1950) were outstanding economists. A renowned geneticist was Gregor Johann Mendel (1822–84). Christian Johann Doppler (1803–53), a physicist and mathematician, described the wave phenomenon known today as the Doppler shift. Lise Meitner (1878–1968) was the physicist who first identified nuclear fission. Austrian Nobel Prize winners in physics are Erwin Schrödinger (1887–1961), in 1933; Victor Franz Hess (1883–1964), authority on cosmic radiation, in 1936; and atomic theorist Wolfgang Pauli (1900–1958), discoverer of the exclusion principle, in 1945. Winners of the Nobel Prize in chemistry are Fritz Pregl (1869–1930), who developed microanalysis, in 1923; Richard Zsigmondy (1865–1929), inventor of the ultramicroscope, in 1925; biochemist Richard Kuhn (1900–1967), a pioneer in vitamin research, in 1938; and biochemist Max Ferdinand Perutz (1914–2002) for research in blood chemistry, in 1962. Winners of the Nobel Prize in physiology or medicine are otologist Robert Bárány (1876–1936), in 1914; psychiatrist Julius Wagner-Jauregg (1857–1940), for developing a treatment for general paresis, in 1927; Karl Landsteiner (1868–1943), discoverer of blood groups, in 1930; German-born pharmacologist Otto Loewi (1873–1961), for his study of nerve impulse transmission, in 1936; Carl Ferdinand Cori (1896–1984) and his wife, Gerti Theresa Radnitz Cori (1896–1957), whose work with enzymes led to new ways of fighting diabetes, in 1947; and Konrad Lorenz (1903–1989), discoverer of the “imprinting” process of learning, in 1973. In 1974, Friedrich August von Hayek (1899–1992), a noted monetary theorist, was awarded the Nobel Prize in economics.

#### Humanitarians

The Nobel Peace Prize was awarded to Baroness Berta Kinsky von Suttner (b.Prague, 1843–1914), founder of the Austrian Society of Peace Lovers and author of *Lay Down Your Arms!*, in 1905; and to Alfred Hermann Fried (1864–1921), a prolific

publicist for the cause of international peace, in 1911. One of the most influential philosophers of the contemporary age was Ludwig Josef Johann Wittgenstein (1889–1951). Rudolf Steiner (1861–1925), the founder of anthroposophy, was an Austrian. Theodor Herzl (b.Budapest, 1860–1904), founder of the Zionist movement, was an early advocate of the establishment of a Jewish state in Palestine. Simon Wiesenthal (b.Poland, 1908), a Nazi concentration-camp survivor, has searched for Nazi war criminals around the world.

#### Athletes

Austrians have excelled in international Alpine skiing competition. In 1956, Toni Sailer (b.1935) won all three Olympic gold medals in men's Alpine skiing events. Annemarie Moser-Pröll (b.1953) retired in 1980 after winning a record six women's World Cups, a record 62 World Cup races in all, and the 1980 women's downhill skiing Olympic championship. Franz Klammer (b.1953), who won the 1976 men's downhill Olympic title, excited spectators with his aggressive style. Arnold Schwarzenegger (b.1947) was once the foremost bodybuilder in the world and became a successful Hollywood actor.

## 49 DEPENDENCIES

Austria has no territories or colonies.

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# BELARUS

Republic of Belarus  
*Respublika Belarus*

**CAPITAL:** Minsk

**FLAG:** Two horizontal bands of red (top) and green, with the red band twice as wide as the green. At the hoist is a vertical band showing a traditional Belarusian ornamental pattern.

**ANTHEM:** *Maladaya Belarus*.

**MONETARY UNIT:** The Belarus ruble (BR) circulates along with the Russian rouble (R). The government has a varying exchange rate for trade between Belarus and Russia. BR1 = \$0.0004938 (or \$1 = BR2025) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** New Year's Day, 1 January; Orthodox Christmas, 7 January; International Women's Day, 8 March; Labor Day, 1 May; Victory Day, 9 May; Independence Day, 27 July; Day of Commemoration, 2 November; Christmas, 25 December.

**TIME:** 2 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Belarus is a landlocked nation located in eastern Europe, between Poland and Russia. Comparatively the area occupied by Belarus is slightly smaller than the state of Kansas, with a total area of 207,600 sq km (80,154 sq mi). Belarus shares boundaries with Latvia on the N, Russia on the N and E, Ukraine on the S, Poland on the SW, and Lithuania on the NW. The boundary length of Belarus totals 3,098 km (1,925 mi).

The capital city of Belarus, Minsk, is located near the center of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Belarus is generally flat and contains much marshland. The Belarussian Ridge (Belorusskya Gryda) stretches across the center of the country from the southwest to the northeast. The highest elevation is at Dzerzhinskaya Gora, 346 m (1,135 ft).

## <sup>3</sup>CLIMATE

The country's climate is transitional between continental and maritime. July's mean temperature is 19°C (67°F). January's mean temperature is -5°C (23°F). Rainfall averages between 57 cm (22.5 in) and 61 cm (26.5 in) annually.

## <sup>4</sup>FLORA AND FAUNA

One-third of the country is forest. Some of the mammals in the forest include deer, brown bears, rabbits, and squirrels. The southern region is a swampy expanse. The marshes are home to ducks, frogs, turtles, archons, and muskrats.

## <sup>5</sup>ENVIRONMENT

As part of the legacy of the former Soviet Union, Belarus's main environmental problems are chemical and nuclear pollution. Belarus was the republic most affected by the accident at the Chernobyl nuclear power plant in April 1986. Northerly winds prevailed at the time of the accident; therefore, most of the fallout occurred over farmland in the southeastern section of the country (primarily in the Gomel and Mogilev *oblasts*). Most experts

estimate that 25–30% of Belarus's farmland was irradiated and should not be used for agricultural production or to collect wild berries and mushrooms, although it continues to be used for these and other purposes. Belarus has 88 UNESCO World Heritage Sites.

In addition, Belarus has significant air and water pollution from industrial sources. The most common pollutants are formaldehyde, carbon emissions, and petroleum-related chemicals. In 1992, Belarus was among the world's top 50 nations in industrial emissions of carbon dioxide, producing 102 million metric tons, or 9.89 metric tons per capita. In 1996, the total fell to 61.7 million metric tons. The soils also contain unsafe levels of lead, zinc, copper and the agricultural chemical DDT. All urban and rural dwellers have access to safe drinking water.

As of 2001, Belarus had over 2,000 species of plants, 74 mammal species, and 221 breeding bird species. Four mammal species and four bird species were listed as threatened that year. Endangered species include the European bison and the European mink.

## <sup>6</sup>POPULATION

The population of Belarus in 2003 was estimated by the United Nations at 9,895,000, which placed it as number 79 in population among the 193 nations of the world. In that year approximately 14% of the population was over 65 years of age, with another 18% of the population under 15 years of age. There were 88 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.45%, with the projected population for the year 2015 at 9,427,000. The population density in 2002 was 48 per sq km (124 per sq mi).

It was estimated by the Population Reference Bureau that 71% of the population lived in urban areas in 2001. The capital city, Minsk, had a population of 1,758,000 in that year. The estimated population of other major cities included Homyel, 506,000; Mahilyow, 363,000; Hrodna, 277,000; and Brest (formerly Brest-Litovsk), 209,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.3%.

Almost 25% of the population of Belarus was killed during World War II, and combined with the fatalities of the Soviet era purges, the postwar population was one-third smaller than it had been in 1930. It was not until the 1970s that the population returned to prewar levels.

## **7** MIGRATION

With the breakup of the Soviet Union in 1991, some 2 million Belarussians were among the various nationality groups who found themselves living outside their autonomous regions or native republics. Most of the Belarussians who have returned to Belarus fled other former Soviet republics because of fighting or ethnic tensions. From 1989 to 1995, 3,000 Belarussians returned from Azerbaijan, and 3,000 Belarussians returned from Kyrgyzstan. From 1991 to 1995, 16,000 Belarussians returned from Kazakhstan, and 10,000 Belarussians returned from Tajikistan.

As of 1999, Belarus had an estimated 13,000 asylum seekers from CIS countries, 131,200 internally displaced persons from the ecological effects of the Chernobyl accident, and 160,000 "returnees," ethnic Belarussians who had returned to Belarus from other former republics. Only 2,800 refugees and asylum seekers, mostly from Afghanistan, were officially registered with the UNHCR. The net migration rate of Belarus in 2000 was 1.5 per 1000 population, or approximately 15,000 people. The government views the immigration level as too high.

## **8** ETHNIC GROUPS

In 2002, an estimated 81% of the total population was Belarussian. Russians made up about 11% of the populace; Poles, Ukrainians, and other groups combined to make up about 7% of the population.

## **9** LANGUAGES

Belarussian belongs to the eastern group of Slavic languages and is very similar to Russian. It did not become a separate language until the 15th century, when it was the official language of the grand duchy of Lithuania. It is written in the Cyrillic alphabet but has two letters not in Russian and a number of distinctive sounds. The vocabulary has borrowings from Polish, Lithuanian, German, Latin, and Turkic. Russian and other languages are also spoken.

## **10** RELIGIONS

Since the 1994 elections, the country's first president, Alyaksandr Lukashenka, who claims to be an "Orthodox atheist," has established a policy of favoring the Orthodox Church as the country's chief religion. This policy involves encouraging a greater role for the Orthodox Church as part of a larger strategy to promote Slavic unity and greater political unification between Belarus and Russia. The president grants the Orthodox Church special financial aid that is not given to other denominations and has declared the preservation and development of Orthodox Christianity a "moral necessity." The government's State Committee on Religious and National Affairs (SCRNA), established in 1997, categorizes religions and may deny any faith it designates as "nontraditional" permission to register. In September 1998, President Lukashenka promised state assistance for the construction of Orthodox churches.

As of 2001, the SCRNA estimates that approximately 80% of the population are Russian Orthodox. About 15% to 20% are Roman Catholics. Between 50,000 and 90,000 people are Jewish. Other minority religions include the Greek Rite Catholic Church, the Belarus Autocephalous Orthodox Church, Seventh-Day Adventist, Calvinism, Lutheranism, Jehovah's Witnesses, the Apostolic Christian Church, and Islam.

## **11** TRANSPORTATION

About 5,523 km (3,432 mi) of railways traverse Belarus, connecting it to Russia, Ukraine, Lithuania, Poland, and Latvia. Of the 98,200 km (61,021 mi) of highways in 2002, 66,100 km (41,075 mi) were hard-surfaced.

The European Bank for Reconstruction and Development (EBRD) initiated a study of railways and roads in 1993 to help determine location advantages for future development in Belarus. The focus of the EBRD study also included the development of the trucking industry.

Because Belarus is landlocked, there are no ports or merchant fleet. However, the canals and rivers are extensive and widely used. In 1995, Belarus claimed to have retained 5% of the merchant fleet of the former Soviet Union. There are 136 airports in the country, 33 of which have paved runways. In 2001, scheduled airline traffic carried 221,700 domestic and international passengers.

## **12** HISTORY

The Belarussians are the descendants of Slavic tribes that migrated into the region in the 9th century. They trace their distinct identity from the 13th century when the Mongols conquered Russia and parts of Ukraine. During this period, Belarus managed to maintain its identity as part of the Grand Duchy of Lithuania. The merger of the Grand Duchy with Poland in 1569 put the territory of Belarus under Polish rule. After the division of Poland in the late 18th century, Belarus fell to the Russian Empire.

In March 1918, at the time of the Soviet-German Treaty of Brest-Litovsk in which Moscow agreed to relinquish claim to a substantial amount of territory Germany had captured in exchange for peace, the Belarussian National Republic was formed with German military assistance. However, after the German government collapsed in November 1918 and German forces were withdrawn from the region, Bolshevik troops moved in and set up the Belarussian Soviet Socialist Republic in January 1919. In 1922 the Belarus SSR became one of 15 socialist republics to form the Union of Soviet Socialist Republics. Two years later, Belarus's borders were enlarged at the expense of Russia and Ukraine. Later, parts of eastern Poland were annexed to Belarus by Stalin under the 1939 Molotov-Ribbentrop pact. However, Belarus was devastated by World War II.

During the decades of Soviet rule, Belarus underwent intense russification, and its leaders generally complied with Soviet policy. However, after extensive nuclear contamination by the 1986 Chernobyl accident in neighboring Ukraine, Belarussian nationalists, acting from exile in Lithuania, organized the Belarussian People's Front. The nationalist upsurge of the period was intensified by the discovery of mass graves from the Stalinist purges of the 1930s at Kuroplaty and other locations. Although the Belarussian leadership still supported keeping the Soviet Union intact, Belarus's parliament declared Belarus a sovereign state within the USSR in July 1990. Shortly after the abortive August 1991 coup attempt against Mikhail Gorbachev, Belarus declared its independence on 26 August 1991.

Belarus's first president, Alyaksandr Lukashenko, was elected in July 1994, the same year the country adopted its first post-Communist constitution. Lukashenko has halted economic and political reform, and he has silenced and even jailed his critics using internal security forces. At the end of 1996, Belarus sent the last of its nuclear missiles back to Russia. Also in November 1996, Lukashenko won a plebiscite to expand his power as president, although most observers agreed that the election was not fair. On 28 November 1996, Lukashenko signed into law a new constitution containing provisions that gave him almost total control of all branches of government and extended his term by two years to 2001. A new bicameral National Assembly replaced





LOCATION: 53°53' N; 28°0' E BOUNDARY LENGTHS: Total boundary lengths, 3,098 kilometers (1,925 miles); Latvia 141 kilometers (88 miles); Lithuania 502 kilometers (312 miles); Poland, 605 kilometers (376 miles); Russia 959 kilometers (596 miles); Ukraine, 891 kilometers (554 miles).

the old Parliament. During 1996, Lukashenko suspended the registration of new enterprises, stopped privatization, and spurned World Bank assistance. Under the new constitution, he has the right to hire and fire the heads of the Constitutional Court and the Central Bank, and he also has the right to dissolve parliament and veto its decisions. Most members of the international community criticized the plebiscite expanding Lukashenko's power, and do not recognize the 1996 constitution or the bicameral legislature that it established.

The constitutional changes implemented by the president sparked strong protests, including public demonstrations and opposition by the Constitutional Court and members of parliament, some of whom attempted to form their own assembly. However, all dissent was effectively repressed, and Lukashenko remained in power. After boycotting the April 1999 local elections, his political opponents held an alternative presidential election in July. This was followed by a new crackdown that forced opposition leader Semyon Sharetsky into exile. From exile Sharetsky proclaimed himself the nation's legitimate ruler, but his action had little effect of the actual state of political affairs in the country. Another prominent political dissident, Vactor Gonchar, was reported missing in September 1999.

In April 1997, Lukashenko and Russia's President Yeltsin signed an initial charter for economic union that included a plan to adopt a common currency. However, over the following two years, implementation of the integration plan moved slowly, and in September 1999, Belarus took steps to peg the country's currency to the euro. Nevertheless, at the end of year, Belarus and Russia reaffirmed their intentions of forming an economic alliance. The leaders of both countries signed a new treaty in December 1999, and it was approved by both parliaments. In April 2000 Russia's new president, Vladimir Putin, reconfirmed his country's commitment to strengthening ties with Belarus.

Parliamentary elections were held in October 2000, and were criticized by election observers as being neither free nor fair. Lukashenko and his administration manipulated the election process to make sure a minimum of opposition candidates were elected to parliament. Turnout in 13 constituencies was so low that a re-run was necessary (it was held in March 2001). On 9 September 2001, Lukashenko was reelected president in what Organization for Security and Cooperation in Europe (OSCE) observers described as undemocratic elections, neither free nor fair. Lukashenko won 75.6% of the vote, with opposition candidate Vladimir Goncharik winning 15.4% and Liberal Democratic Party leader Syargey Gaydukevich winning 2.5%. The government reported 83.9% of eligible voters participated in the election.

In June 2002, Russian President Vladimir Putin refused to follow the path to integration that Belarus had sketched out for the two nations, saying it would lead to the recreation of "something along the lines of the Soviet Union." Lukashenko pledged not to relinquish Belarus's sovereignty in the union with Russia, while Putin in August put forth a proposal for the "ultimate unification" of both countries. Putin envisioned a federation based on the Russian constitution, with the Russian ruble as the state's sole currency and the election of a president in 2004. A constitution for the union was approved in March 2003. In April, the speaker of the Russian Duma indicated Armenia, Ukraine, and Moldova might be probable candidates for joining the Belarus-Russian union. A referendum on the constitution is planned in Russia and Belarus at the end of 2003, and elections for a joint parliament are to take place in 2004.

In November 2002, 14 EU states (minus Portugal) imposed a travel ban on Lukashenko and several of his government ministers as a way of protesting Belarus's poor human rights record. In February 2003, Lukashenko pledged support for Iraq in the prelude to war which began on 19 March, led by a US and UK coalition. Analysts stated such a declaration of support was directed more at the Belarusian public as a way of increasing Lukashenko's image as a strong and independent leader.

### 13 GOVERNMENT

In May 1993, a draft constitution was presented to the twelfth session of parliament, which adopted 88 of the new constitution's 153 articles.

Until mid-1994, Belarus was the only former Soviet republic not to have a president. The chairman of the Supreme Soviet was considered the chief of state, but power remained in the hands of the Council of Ministers headed by a prime minister.

On 19 July 1994, elections for president were held in Belarus. Alyaksandr Lukashenko received 80.1% of the vote. He was elected on a platform of clearing out the ruling Communist establishment. Lukashenko, however, is not a democrat but a Communist populist who appears to have no plans for implementing political or economic reform.

In November 1996, Lukashenko won a plebiscite to expand his powers. He signed a new constitution into law giving the president power to dissolve parliament and authorized the formation of a new bicameral National Assembly with a 64-member upper house, the Council of the Republic, and a 110-

member lower house, the House of Representatives. All legislators serve four-year terms. The president's term was also extended until 2001. Lukashenko was reelected in 2001, and the next presidential elections are to be held in September 2006.

## 14 POLITICAL PARTIES

The Communist Party was declared illegal after the abortive August 1991 coup attempt, but was relegalized in February 1993. It and two other pro-Communist parties merged into one political party called the People's Movement of Belarus in May 1993. On the whole, political parties have not gathered the momentum evident in other former Soviet republics. None of the parties has had a large public following.

The parties with the greatest representation in the 260-member unicameral Supreme Council elected in 1995 were the Communist Party (42 seats) and the Agrarian Party (33). The Supreme Council was disbanded under the terms of the 1996 constitution and replaced with a bicameral legislature, for which the first elections were held in January 1997.

The primary pro-government party is the Belarussian Popular Patriotic Union, which supports President Lukashenko and the proposed union with Russia. As of 1999, the primary opposition party was the Belarussian Popular Front, whose chairman, Zyanon Paznyak, was in exile in the United States. Many of its other leaders had been jailed at various times. The Popular Front was one of three parties that organized the alternative presidential elections held in 1999 to protest the extension of President Lukashenko's term to 2001.

As of 2002, there were 18 political parties registered in Belarus. In the parliamentary elections held on 15 and 29 October 2000, the following parties won seats in the 110-member House of Representatives: Communist Party of Belarus, 6; Agrarian Party, 5; Republican Party of Labor and Justice, 2; Liberal-Democratic Party of Belarus, 1; Social-Democratic Party of Popular Accord, 1; Belarussian Socialist Sporting Party, 1. Eighty-one seats were won by independents, and 13 were vacant.

## 15 LOCAL GOVERNMENT

Belarus is divided into six oblasts (provinces) and one municipality. The oblasts are roughly parallel to counties in the United States. Each has a capital city, and the name of the oblast is typically derived from the name of this city. The names of the six oblasts are Brestskaya, Homyel'skaya, Hrodzyenskaya, Mahilyowskaya, Minskaya, and Vitsyeb'skaya. The municipality is Horad Minsk. The constitutional modifications passed in 1996 give the president increased powers over local government, including the power of nullifying rulings by local councils. Under a 1994 decree, the president had already assumed the right to appoint and dismiss senior local officials. As of 2003, the local Councils of Deputies were elected for 4-year terms.

## 16 JUDICIAL SYSTEM

The courts system consists of district courts, regional courts, and the Supreme Court. Higher courts serve as appellate courts but also serve as courts of first instance. There are also economic courts, and a Supreme Economic Court. Trials are generally public unless closed on grounds of national security. Litigants have a right to counsel and, in cases of need, to appointment of counsel at state expense.

The president appoints all district level and military judges. The 1996 constitution gives the president the power to appoint 6 of the 12 members of the Constitutional Court, including the chief justice. The Council of the Republic appoints the other remaining 6 members of the Constitutional Court. The judiciary is not independent and is under the influence of the executive. Legislation concerning independence of the judiciary was passed in 1995, but as of 2003, the laws were not implemented. The Constitutional Court was established in 1994, and adjudicates

serious constitutional issues. The Constitutional Court has no power to enforce its decisions. Prosecutors are responsible to the Procurator General who is appointed by the Council of the Republic according to the 1996 constitution. The offices of prosecutors consist of district offices, regional and republic level offices.

## 17 ARMED FORCES

The active armed forces of Belarus numbered 79,800 in 2002, including 4,000 women. The reserves consisted of 289,500 individuals who had military service within the last five years. The military is organized as an army, air force, and air defense force. The army numbered 29,300 with approximately 1,608 main battle tanks. The Air Force and Air Defense Force numbered 22,000 and had 212 combat aircraft and 58 attack helicopters. Belarus had a paramilitary of 110,000 including border guards and a militia. In 2001 the defense budget was approximately 1% of GDP.

## 18 INTERNATIONAL COOPERATION

Belarus was admitted to the UN on 22 October 1945. The country is also a member of the ECE, IAEA, OSCE, IMF, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, and the World Bank. It is an applicant for membership in the WTO.

Belarus is applying for membership in other international organizations, and it is a member of the CIS. The country has signed the Nuclear Nonproliferation Treaty and has formal diplomatic ties with many nations. The United States recognized Belarus's sovereignty 25 December 1991. US diplomatic relations with Belarus were established two days later.

## 19 ECONOMY

Belarus's economy has been geared toward industrial production, mostly in machinery and metallurgy with a significant military component, although trade and services account for an increasing share of economic activity. Forestry and agriculture, notably potatoes, grain, peat, and cattle, are also important. Belarus's economy is closely integrated with those of Eastern Europe and the other republics of the former Soviet Union, and the breakup of the Soviet Union was highly disruptive to it. The demand for military products was cut sharply, and supplies of imported energy and raw materials were curtailed.

Despite repeated calls by the IMF for economic reform in Belarus, the Lukashenko government remains committed to maintaining state control over most industries. Lukashenko's administration has also come under severe criticism for its monetary policies. Western analysts accuse the Belarussian government of printing more money to subsidize higher salaries, thereby fueling inflation.

In 1997, Belarus and Russia signed a treaty of union, to provide for close cooperation in foreign affairs and military and economic policies, including freedom of movement for citizens, property ownership, and participation in local elections. Each country will retain its sovereignty, independence, territorial integrity, and other aspects of statehood, however. A constitution for the union was approved in 2003.

The business climate remains poor in Belarus: as of 2000, production had increased, but products were uncompetitive on the world market and many were placed in warehouses for storage. Losses from state-owned businesses are largely written off, which prevents those businesses from going bankrupt and keeps unemployment artificially low. Because Lukashenko controls all governmental power, there are no checks and balances or legal provisions for regulating business matters. However, as of 2003, Belarus had six free economic zones, which have attracted foreign investment, especially from Poland, Russia, and Germany, with the United States as the sixth-largest investor.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Belarus's gross domestic product (GDP) was estimated at \$84.8 billion. The per capita GDP was estimated at \$8,200. The annual growth rate of GDP was estimated at 4.1%. The average inflation rate in 2001 was 46.1%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 13% of GDP, industry 42%, and services 45%.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$1,134. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 17%. Approximately 36% of household consumption was spent on food, 15% on fuel, 7% on health care, and 10% on education. The richest 10% of the population accounted for approximately 20% of household consumption and the poorest 10% approximately 5.1%. It was estimated that in 1995 about 22% of the population had incomes below the poverty line.

## 21 LABOR

The labor force in 2000 numbered 4.8 million workers. In 1998, an estimated 19% were engaged in agriculture, 41% in services, and 40% in industry and construction. In 2000, the number of registered unemployed was 2.1%, but there was a large segment of the population that was underemployed.

Although the constitution provides for the right of workers to form and join independent unions, these rights are not respected in practice. Union activity is discouraged, and almost impossible to conduct in most of the state-owned larger industries. Strikes are legally permitted but tight control by the regime over public demonstrations makes it difficult to strike or hold public rallies. The government has harassed and arrested union leaders, and broken up union-sponsored activities.

The statutory minimum employment age is 16, and the workweek is set at 40 hours. Safety and health standards in the working place are often ignored. As of 2001, the minimum wage was \$30 a month which does not provide a decent standard of living. However, average real wages improved during that year from around \$40 to \$60 per month.

## 22 AGRICULTURE

Belarus had about 6,319,000 hectares (15,614,000 acres) of arable land (30.4% of the total) in 1998. Agriculture engaged about 14% of the economically active population in 2000 and accounted for 15% of GDP. Production levels (in 1,000 tons) for 1999 include: potatoes, 8,000; barley, 1,250; rye, 1,024; sugar beets, 1,200; oats, 376; and wheat, 600. In 1998, 96,000 and 19,300 tractors and combines, respectively, were in service.

## 23 ANIMAL HUSBANDRY

About 15% of the total land area is devoted to pastureland. In 1999, there were some 4,515,000 cattle, 3,608,000 pigs, 122,000 sheep, and 39 million chickens. Of the 652,000 tons of meat produced in 1999, beef and veal accounted for 40%; poultry, 11%; pork, 48%, and other meats, 1%. Belarus produces more dairy products than any other former Soviet republic except Russia, with 1.9 million tons of milk, 73,000 tons of butter and ghee, and 59,000 tons of cheese produced in 1999. That year, egg production amounted to 188,000 tons; honey, 3,000 tons.

## 24 FISHING

As a landlocked nation, fishing is confined to the system of rivers (Pripyat, Byarezina, Nyoman, Zach Dvina, Sozh, Dnieper) that cross Belarus. The total catch in 2000 was 553 tons, with common carp accounting for 28% of that amount.

## 25 FORESTRY

About 45% of the total land area was covered by forests in 2000. Radioactive contamination of some forestland from the 1986 Chernobyl disaster has severely restricted output. In 2000, Belarus produced 6.1 million cu m (215 million cu ft) of roundwood, of which 945,000 cu m (33.4 million cu ft) were exported for a value of \$21 million.

## 26 MINING

Potash was the one significant mineral resource possessed by Belarus, which ranked second in world output in 2000. During the 1980s, Belarus produced 5 million tons per year (calculated based on potassium oxide content), about 50% of the former Soviet Union's output. After the breakup of the Soviet Union, production fell to 1.95 million tons by 1993. A program was then undertaken to raise the quality of potash to world standards to increase exports. Total production in 2000 was 3.79 million tons (more than 80% of which was exported), down from 4.55 million tons in 1999. Potash was mined in the Salihorsk region, by the Belaruskaliy production association. Accumulated waste from the industry has raised environmental concerns. Two plants produced 1.85 million tons of cement in 2000.

## 27 ENERGY AND POWER

Domestic electricity is produced by four thermal plants. Belarus also imports electricity generated by nuclear and hydroelectric plants. In 2000, net electricity generation was 24.6 billion kWh, of which over 95% came from fossil fuels, with the remainder from hydropower and other sources. In the same year, consumption of electricity totaled 26.8 million kWh. Total installed capacity at the beginning of 2001 was 7.5 million kW.

Only a small portion of Belarus's energy requirement is met by local production. Belarus has been producing oil since 1964 and had 37 operational fields in 1995. As of 2002 Belarus had oil reserves estimated at 198 million barrels, but there was a lack of foreign investment to fund exploration. About 37,000 barrels of oil were produced per day in 2001, along with a nominal amount of peat and natural gas. Peat is found throughout the country and is processed by 37 fuel briquetting plants. Natural gas production in 2002 totaled only 210 million cu m (7.4 billion cu ft). There are two major oil refineries: Mazyr and Navapolatsk, with a combined Although oil consumption has been cut roughly in half since the early 1990s, Belarus was still obliged to import 75% of its oil from Russia as of 2002. In December 2002, Belarus sold its 11% stake in Slavneft, a joint Belarussian-Russian state-run oil company, to Russia.

Belarus is an important transit route for Russian oil and natural gas exports to Eastern Europe, via pipelines that can carry up to 1,030,000 barrels per day of oil and 22.7 billion cu m (800 billion cu ft) per year of natural gas. Roughly half of Russia's net oil exports travel through Belarus, and a trade agreement between the two countries exempts Russian from paying export duties on this oil. In March 1993, Poland and Russia entered into an agreement to build a 2,500-mile natural gas pipeline from Russia's northern Yamal Peninsula, through Belarus and Poland, to Germany. When completed by 2010, the new pipeline will have a capacity of more than 56.6 billion cu m (2 trillion cu ft) per year. To maintain stable supplies of oil and natural gas, Belarus has entered a joint project with Russia, sponsored by the European Bank for Reconstruction and Development (EBRD,) to develop 60 million tons of oil from idle

wells in Russia's Tymen region in exchange for guaranteed Russian oil supplies.

## 28 INDUSTRY

Belarus's industrial base is relatively well-developed and diversified compared to other newly independent states. Industry accounted for 42% of GDP in 2000. Belarus's main industries are engineering, machine tools, agricultural equipment, fertilizer, chemicals, defense-related products, prefabricated construction materials, motor vehicles, motorcycles, textiles, threads, and some consumer products, such as refrigerators, watches, televisions, and radios. The types of motor vehicles produced are off-highway dump trucks with up to 110-metric-ton load capacity, tractors, earth movers for construction and mining, and 25-metric-ton trucks for use in roadless and tundra areas.

While there had been an increase in industrial production as of 2002, a high volume of unsold industrial goods remain stocked in warehouses, due to high overhead costs that make Belarusian products uncompetitive on the world market. Belarus has taken few steps to privatize state-owned industries: it was estimated that around 10% of all Belarusian enterprises were privatized as of 2000.

## 29 SCIENCE AND TECHNOLOGY

The Academy of Sciences of Belarus, founded in 1929 and headquartered in Minsk, has departments of physics, mathematics, and informatics; physical and engineering problems of machine building and energetics; chemical and geological sciences, biological sciences, and medical-biological sciences; it also operates numerous research institutes.

The Belarussian State University, founded in 1921 at Minsk, has faculties of applied mathematics, biology, chemistry, geography, mechanics and mathematics, physics, and radiophysics and electronics. The Belarussian State Technological University, founded in 1930 at Minsk, has faculties of chemistry technology and engineering, forestry, and organic substances technology. In 1987–97, science and engineering students accounted for 48% of college and university enrollment.

The Belarussian State Scientific and Technical Library, located in Minsk, had more than 1.2 million volumes as of 1996. In 1987–97, total research and development expenditures in Belarus amounted to 1% of GNP. In the same period, 2,248 scientists and engineers and 266 technicians per million people were engaged in research and development.

## 30 DOMESTIC TRADE

In 1992, retail prices rose more than 1,000%. The same year a parallel national currency (called the ruble) was introduced and declared the only legal tender for purchasing goods such as food, alcohol, and tobacco. In 1998, the inflation rate was 182%. Though the government had initiated some capitalist reforms from 1991 to 1994, President Alexander Lukashenko (elected 1994) has significantly slowed efforts toward privatization through a program of "market socialism." The government has administrative control of prices and currency exchange rates and has also reestablished certain management rights over private enterprises. As of early 2003, nearly 80% of industry was state-owned. Independent banks had also been renationalized.

## 31 FOREIGN TRADE

Before the collapse of the Soviet Union, Belarus exported about 40% of its industrial output to other Soviet republics and imported 90% of its primary energy and 70% of its raw materials from them. Belarus has remained exceedingly dependant on Russia for economic support; a proposed EU-style partnership between the two nations threatens its economic independence.

In 2000, Belarus exported machinery and transport equipment, chemicals, petroleum products, and manufactured goods.

Imports included fuel, natural gas, industrial raw materials, textiles, and sugar. Belarus' major trading partners are Russia, Ukraine, Poland, and Germany. Imports and exports grew at an annual pace of over 61% in 1995. Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Russia	3,716	5,550	-1,834
Ukraine	560	341	219
Latvia	467	30	437
Lithuania	349	69	280
Poland	277	216	-61
Germany	232	588	-356
Estonia	147	n.a.	
China (inc. Hong Kong)	136	47	89
Netherlands	130	80	50
United States	99	139	-40
Italy	76	163	-87

## 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Belarus's exports was \$7.5 billion while imports totaled \$8.1 billion resulting in a trade deficit of \$600 million.

The International Monetary Fund (IMF) reports that in 2001 Belarus had exports of goods totaling \$7.26 billion and imports totaling \$8.06 billion. The services credit totaled \$1.01 billion and debit \$603 million. The following table summarizes Belarus's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-285</b>
Balance on goods	-807
Balance on services	410
Balance on income	-43
Current transfers	154
<b>Capital Account</b>	<b>56</b>
<b>Financial Account</b>	<b>247</b>
Direct investment abroad	-0
Direct investment in Belarus	96
Portfolio investment assets	11
Portfolio investment liabilities	-45
Other investment assets	-139
Other investment liabilities	326
<b>Net Errors and Omissions</b>	<b>-100</b>
<b>Reserves and Related Items</b>	<b>81</b>

## 33 BANKING AND SECURITIES

The National Bank of Belarus is the central bank of Belarus, charged with regulating the money supply, circulating currency, and regulating the commercial banks of the country. The currency unit is the ruble. There are no current figures on the level of foreign currency reserves, but it is widely assumed that these have dwindled to perilously low levels because of the need for the National Bank of Belarus to maintain the local currency at its overvalued exchange rate on the Minsk Interbank Currency Exchange (MICE). The central bank has also had to turn to the street market to replenish reserves; in August, 1996, it bought \$25 million, paying effectively 10% more than it would have through MICE. Under Belarus's "currency corridor," the Belarussian ruble cannot fall below BR615,000: \$1 at its twice-weekly auctions at the MICE. The street market accounts for 70% to 80% of foreign exchange trading. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$640.0 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$1.8 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 48%.

### 34 INSURANCE

No recent information about the insurance industry in Belarus is available.

### 35 PUBLIC FINANCE

Because it was formerly a part of the Soviet Union, Belarus has a well-established industrial base, but the transition from a centrally-planned economy to a free market economy has not been easy. Privatization, although in progress, has been happening slowly, and foreign investment is discouraged by the "hostile" business climate.

The US Central Intelligence Agency (CIA) estimates that in 1998 Belarus's central government took in revenues of approximately \$4 billion and had expenditures of \$4.1 billion including capital expenditures of \$180 million. Overall, the government registered a deficit of approximately \$1 million. External debt totaled \$1.03 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100%	4,000
Tax revenue	92.0%	3680
Non-tax revenue	6.9%	276
Capital revenue	1.1%	44
EXPENDITURES	100%	4,100
General public services	5.3%	217
Defense	4.5%	185
Public order and safety	3.2%	131
Education	4.1%	168
Health	3.2%	131
Social security	36.3%	1488
Recreation, cultural, and religious affairs	1.5%	62
Economic affairs and services	21.0%	861
Other expenditures	18.6%	763
Interest payments	2.4%	98

### 36 TAXATION

Belarus imposes a wide array of taxes on business and citizens. In 2002, the corporate income tax for resident companies was 30%. Companies with profits of over 5,000 times the minimum wage are taxed an additional 15% under certain conditions. Joint ventures in which foreign participation is more than 30% are eligible for a three-year tax holiday.

The main indirect tax is the country's value-added tax (VAT) with a standard rate of 20% and a reduced rate of 10%. Other consumption taxes include a 3% turnover tax and excise taxes ranging from 10% to 75%. There are also taxes on the use of natural resources, including the Chernobyl nuclear plant. Individual income is taxed according to a progressive schedule of rates ranging from 12% (up from 4.7%) to 30%. There is a 64.8% employer payroll tax for social security and employment taxes. There are also direct taxes on property and land.

### 37 CUSTOMS AND DUTIES

A 1995 customs union with Russia allows goods to flow between the two countries duty-free. However, the union required Belarus to conform its customs rates to those of Russia resulting in a tariff increase from 5–10% to 20–40%. In 1995, Belarus also introduced a 20% import VAT (value-added tax) to be paid at the border on all incoming goods, except certain raw material used by local manufacturers.

### 38 FOREIGN INVESTMENT

The European Bank for Reconstruction and Development (EBRD) financed several major infrastructure improvement and

commercial projects. The World Bank was financing construction and telecommunication projects, but these were discontinued in 1996 by President Lukashenka. At the end of the decade, President Lukashenka's steadfast refusal to implement market reforms continued to keep foreign investment levels low. In May 2002, however, the government announced a new program aimed at raising the share of foreign investment in GDP from 19% to 26–28%, with most investments coming from Russia. Several state-owned enterprises (SOEs), including oil refineries and chemical plants, were to be transformed into joint stock companies in preparation of selling 49.9% in blocks of 10%. Many restrictions are still tied to foreign investments and in June 2003, President Lukashenka announced that he had turned down proposals from foreign investors amounting to \$10 billion because of unacceptable terms. The president stated that the government's goal was at least \$1 billion in foreign direct investment (FDI) in 2003.

FDI inflow for Belarus reached \$444 million in 1999, up from \$352 million in 1997 and \$203 million in 1998. However, the inflow was reduced to a trickle in 2000 (\$90 million) and 2001 (\$169 million). During the decade 1993 to 2003, according to the Belarus government, foreign investment totaled \$4 billion, \$1.7 billion in FDI and \$2.5 billion in credits guaranteed by the government. All but a small proportion of foreign investment has come from Russia. Other sources include the Netherlands, Germany, and the United States (McDonald's, Coca Cola, and Ford). However, McDonald's and Coca Cola have both had problems with the government and the Ford plant is closed.

### 39 ECONOMIC DEVELOPMENT

In the summer of 1995, the Belarussian president announced the policy of "market socialism," after a period of economic liberalization and privatization that had taken place from 1991–94. The government still controls key market sectors as the private sector only makes up 20% of the economy. Most of the heavy industry in Belarus remains state-owned. Belarus offers easy credit to spur economic growth, but this comes at the price of high inflation. To combat spiraling wages and prices, President Lukashenko imposed price controls. These policies have driven away foreign investment and left Belarus economically isolated.

Bad harvests in 1998 and 1999, and continued trade deficits worsened the climate of economic development. The government resorted to inflationary monetary policies, including the printing of money, to pay salaries and pensions. In 2000, the government tightened its monetary policies, but in 2002, the International Monetary Fund (IMF) criticized Belarus for its economic performance, and refused to resume loans to the country. (IMF loans were last offered in 1995.) The balance of payments situation remained weak from 2001–03, as the rubel rose against the US dollar and the Russian ruble. The current account deficit was \$279 million or 2% of gross domestic product (GDP) in 2003. There were plans in 2003 for monetary and currency union with Russia, which would require substantial macroeconomic reforms on the part of Belarus.

### 40 SOCIAL DEVELOPMENT

The government has subsidized food and other basic goods to preserve social stability. Many factories have given workers mandatory unpaid vacations and four-day workweeks to avoid closing down. Old age, disability, and survivors are protected by a social insurance system updated in 1999. Sickness, maternity, work injury, family allowance and unemployment insurance legislation were revised in 1992 and 1993. The 1993 law on pensions requires employers to contribute between 4.7% to 35% of payroll, depending on the type of company. Retirement is set at age 60 for men and age 55 for women.

The human rights record of Belarus has worsened in recent years, after President Lukashenka amended the constitution to

extend his stay in office and handpick members of parliament. Reports of police brutality are widespread and prison conditions are poor. Arbitrary arrests and detention have been reported, as well as incidents of severe hazing in the military. The government abridges freedom of the press, speech, assembly, religion, and movement. Religious freedom and equality is provided for in the Constitution, but religions other than Russian Orthodox are discriminated against.

While there are no legal restrictions on women's participation in public life, social barriers are considerable, and women with children commonly experience discrimination when it comes to job opportunities. The law mandates equal pay for equal work, but few women reach senior management or government positions.

#### 41 HEALTH

The basic framework of the health care system has remained the same since the breakup of the Soviet Union. Health care is administered through a network of hospitals, polyclinics, tertiary care centers, and walk-in clinics. As of 1999, there were an estimated 4.4 physicians and 12.2 hospital beds per 1,000 people. In addition to hospitals and medical personnel, the medical infrastructure comprises pharmacies and other retail outlets from which people and institutions acquire medicines and other basic medical supplies. Health care expenditures in 1999 were an estimated 5.6% of GDP.

The incident with the most wide-ranging effects on the health of the Belarussian population was the accident at the Chernobyl nuclear power plant in April 1986. An estimated 2.2 million Belarussians were directly affected by radioactive fallout. As a result of the disaster, the population is constantly subject to increased amounts of background radiation that weakens the immune systems of individuals in contaminated areas; many are said to suffer from "Chernobyl AIDS."

The 1999 birthrate was 10 per 1,000 inhabitants, with 101,317 births. Life expectancy in 2000 was 68 years. In 1997, children one year of age were immunized at the following rates: tuberculosis, 98%; diphtheria, pertussis, and tetanus, 97%; polio, 98%; and measles, 98%. The infant mortality rate in 2000 was 11 per 1,000 live births and the overall death rate for the country was 14 per 1,000. Maternal mortality was estimated at 28 per 100,000 live births in 1998. In 1999, there were 80 deaths from tuberculosis per 100,000 people.

As of 1999 the number of people living with HIV/AIDS was estimated at 14,000 and deaths from AIDS that year were estimated at 400. HIV prevalence was 0.28 per 100 adults. The National AIDS Center was established in 1990.

#### 42 HOUSING

The lack of adequate, affordable housing continues to be a problem for Belarus, but certain advances have been made. After the 1986 Chernobyl nuclear plant disaster, the government was forced to seal off 485 human settlement areas, displacing about 135,000 people. About 65,000 apartments and homes have since been built to house these people, but funds are still needed to rebuild the region. In 1990, Belarus had 17.9 square meters of housing space per capita and, as of 1 January 1991, 635,000 households (or 28.8%) were on waiting lists for housing in urban areas. Since 1992, the government has been reforming housing laws to secure the constitutional right of citizens to acquire, build, reconstruct, or lease housing facilities.

#### 43 EDUCATION

The official language is Belarussian, which is written in the Cyrillic script. For the year 2000, the adult illiteracy rate was estimated at 0.6% (males, 0.3%; females, 0.6%). Education is compulsory for children between the ages of 6 and 15. Secondary education lasts for five to seven years, beginning at age 12. The

government is now putting more emphasis on replacing Russian with Belarussian. Approximately 97% of primary-school-age children are enrolled in school. In 1997, there were 625,000 students registered in primary schools and secondary-level schools had 1,064,700 students. In the same year there were 4,511 preschools, 4,820 general-education schools, 249 vocational and technical schools, and 151 state-run specialized secondary schools; altogether the public education system had about 200,000 teachers.

There are three universities in Belarus. The largest is the Belarussian State University, which is located in Minsk and was founded in 1921. Along with these universities, there are four polytechnical institutes and 19 educational institutes. All higher-level institutions had 328,746 students and 40,300 teaching staff in 1997.

As of 1999, public expenditure on education was estimated at 5.6% of GDP.

#### 44 LIBRARIES AND MUSEUMS

As of 2002, the National Library in Minsk held 7.6 million volumes. The country also had an extensive public library system. Universities with significant library holdings include the Belarussian State Polytechnical Academy (over two million volumes), Belarussian State University (1.7 million volumes), and the Minsk Teacher Training Institute (1.2 million volumes). The presidential library holds 1.5 million volumes, and the Gomel Regional Library has 1.3 million volumes.

The country records 14,392 monuments and historic sites. The State Art Museum in Minsk houses the country's largest collection of fine arts. The Belarussian State Museum of the History of World War II in Minsk houses artifacts and memorials of the country's great travails during the war. There is a historical and archaeological museum in Grodno and a natural history museum in Belovezskaja Pusca.

#### 45 MEDIA

There were approximately 2,313,000 million main line telephones in service in 1997 with an additional 8,167 mobile cellular phones in use. The Ministry of Telecommunications controls all telecommunications through Beltelecom. In 1997, there were 3,020,000 radios and 2,520,000 television sets. The government operates the only nationwide television station; however, there are over 40 local stations. In 1998, there were 65 radio stations (28 AM and 37 FM). In 1997 there were 3.02 million radios and 2.52 million television sets.

The most widely read newspapers (with 2002 circulation figures) are *Sovetskaya Belorussiya* (*Soviet Belorussia*, 330,000); *Narodnaya Hazeta* (*People's Newspaper*, 259,597); *Respublika* (*Republic*, 130,000); *Vechernii Minsk* (*Evening Minsk*, 111,000); *Svaboda* (90,000); *Zvyazda* (*Star*, 90,000); and *Belorusskaya Niva* (*Belarussian Cornfield*, 80,000).

As of 2002, there were 23 Internet service providers serving about 180,000 customers. All ISPs are controlled by the state.

Though freedom of the press is granted in the 1996 constitution, the government continues to restrict this right through a virtual monopoly over forms of mass communication and its desire to limit media criticism of its actions. It controls the editorial content and policy of the largest circulation daily newspapers and of radio and television broadcasts and places severe restrictions on the editorial content of independent publications or broadcasts. Local radio and television stations are pressured to refrain from reporting on national issues. Government authorities reserve the right to ban and censor publications presenting critical reports on national issues.

#### 46 ORGANIZATIONS

Belarus' important organizations include the Chamber of Commerce and Industry of the Republic of Belarus. Important

agricultural and industrial organizations include the Belarusian Peasants' Union, the Union of Entrepreneurs and Farmers, and the Union of Small Ventures. The National Academy of Sciences promotes public interest and education in science. The Belarusian Think Tanks is a public policy center involved in developing and promoting ideas to create democracy, market economy, and respect for human rights in Belarus.

Political interest youth organizations include the Belarusian Patriotic Youth Union and the Youth Front of Belarus (est. 1993). The Belarus Youth Information Center (YIC) was founded in 1994 to encourage and support youth involvement in science, culture, and education. The Belarusian Students Association is an affiliate member of the National Union of Students in Europe (ESIB). A scouting organization is also present.

#### 47 TOURISM, TRAVEL, AND RECREATION

Scenery, architecture, and cultural museums and memorials are primary attractions in Belarus. The Belavaezhskaja Puscha Nature Reserve features a variety of wildlife and a nature museum. The city of Hrodna is home to the baroque Farny Cathedral, the Renaissance Bernadine church and monastery, and the History of Religion Museum, which is part of a renovated 18th century palace. There are also two castles in the area, both housing museums.

In 1998 there were 355,342 tourist arrivals in Belarus, up from 254,023 the previous year. Russians accounted for over 211,000 of those visitors. Tourism receipts totaled US\$22 million.

In 2000, the US government estimated the cost of staying in Minsk at \$144 per day in 1999.

#### 48 FAMOUS BELARUSIANS

Frantsky Sharyna, who lived in the first quarter of the 16th century, translated the Bible into Belarussian. Symeon of Polatsk was a 17th-century poet who wrote in Belarussian. Naksim Bahdanovich was an important 19th-century poet. Modern writers include Uladzimir Dubouka (1900–1976) and Yazep Pushcha, both poets. Kuzma Chorny and Kandrat Krapiva (1896–1991) were writers of fiction during the outpouring of Belarussian poetry and literature during the 1920s. Famous modern composers from Belarus included Dzmitry Lukas, Ryhor Pukst, and Yauhen Hlebau (1929–2000).

#### 49 DEPENDENCIES

Belarus has no territories or colonies.

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# BELGIUM

Kingdom of Belgium

*Dutch: Koninkrijk België; French: Royaume de Belgique*

**CAPITAL:** Brussels (Brussel, Bruxelles)

**FLAG:** The flag, adopted in 1831, is a tricolor of black, yellow, and red vertical stripes.

**ANTHEM:** *La Brabançonne (The Song of Brabant)*, named after the Duchy of Brabant.

**MONETARY UNIT:** The euro replaced the Belgian franc in 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro; and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Labor Day, 1 May; Independence Day, 21 July; Assumption Day, 15 August; All Saints' Day, 1 November; Armistice Day, 11 November; Dynasty Day, 15 November; and Christmas, 25 December. Movable holidays are Easter Monday, Ascension, and Whitmonday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in northwestern Europe, Belgium has an area of 30,510 sq km (11,780 sq mi) and extends 280 km (174 mi) SE–NW and 222 km (137 mi) NE–SW. Comparatively, the area occupied by Belgium is about the same size as the state of Maryland. Belgium borders on the Netherlands to the N, Germany and Luxembourg to the E, France to the S and SW, and the North Sea to the NW, with a total boundary length of 1,385 km (859 mi).

Belgium's capital city, Brussels, is located in the north-central part of the country.

## <sup>2</sup>TOPOGRAPHY

The coastal region, extending about 16–48 km (10–30 mi) inland, consists of sand dunes, flat pasture land, and polders (land reclaimed from the sea and protected by dikes), and attains a maximum of 15 m (50 ft) above sea level. Eastward, this region gradually gives way to a gently rolling central plain, whose many fertile valleys are irrigated by an extensive network of canals and waterways. Altitudes in this region are about 60–180 m (200–600 ft). The Ardennes, a heavily wooded plateau, is located in southeast Belgium and continues into France. It has an average altitude of about 460 m (1,500 ft) and reaches a maximum of 694 m (2,277 ft) at the Signal de Botrange, the country's highest point. Chief rivers are the Schelde (Scheldt, Escaut) and the Meuse (Maas), both of which rise in France, flow through Belgium, pass through the Netherlands, and empty into the North Sea.

## <sup>3</sup>CLIMATE

In the coastal region, the climate is mild and humid. There are marked temperature changes farther inland. In the high southeasterly districts, hot summers alternate with very cold winters. Except in the highlands, rainfall is seldom heavy. The average annual temperature is 8°C (46°F); in Brussels, the mean temperature is 10°C (50°F), ranging from 3°C (37°F) in January to 18°C (64°F) in July. Average annual rainfall is between 70 and 100 cm (28 to 40 in).

## <sup>4</sup>FLORA AND FAUNA

The digitalis, wild arum, hyacinth, strawberry, goldenrod, lily of the valley, and other plants common to temperate zones grow in abundance. Beech and oak are the predominant trees. Among mammals still found in Belgium are the boar, fox, badger, squirrel, weasel, marten, and hedgehog. The many varieties of aquatic life include pike, carp, trout, eel, barbel, perch, smelt, chub, roach, bream, shad, sole, mussels, crayfish, and shrimp.

## <sup>5</sup>ENVIRONMENT

About 520 sq km (200 sq mi) of reclaimed coastal land is protected from the sea by concrete dikes. As of 2000, Belgium's most significant environmental problems were air, land and water pollution due to the heavy concentration of industrial facilities in the country. The sources of pollution range from nuclear radiation to mercury from industry and pesticides from agricultural activity. The country's water supply is threatened by hazardous levels of heavy metals, mercury, and phosphorous. It has a renewable water supply of 12 cu km. Pollution of rivers and canals was considered the worst in Europe as of 1970, when strict water-protection laws were enacted. Air pollution reaches dangerous levels due to high concentrations of lead and hydrocarbons. Belgium is also among the 50 nations that emit the highest levels of carbon dioxide from industrial sources. In 1996 its emission level was 106 million metric tons. Belgium's problems with air pollution have also affected neighboring countries by contributing to the conditions which cause acid rain. The Ministry of Public Health and Environment is Belgium's principal environmental agency, and there is also a Secretary of State for Public Health and Environment. The Belgian government has created several environmental policies to eliminate the country's pollution problems: the 1990–95 plan on Mature Development, an Environmental Policy Plan, and the Waste Plan.

As of 2001, there were six species of mammals and three species of birds that were endangered. The Mediterranean



mouflon, the Atlantic sturgeon, and the black right whale are listed as endangered.

## 6 POPULATION

The population of Belgium in 2003 was estimated by the United Nations at 10,318,000, which placed it as number 75 in population among the 193 nations of the world. In that year approximately 17% of the population was over 65 years of age, with another 18% of the population under 15 years of age. There were 96 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.21%, with the projected population for the year 2015 at 10,470,000. The population density in 2002 was 337 per sq km (874 per sq mi), making it one of the most densely populated countries in the world.

It was estimated by the Population Reference Bureau that 97% of the population lived in urban areas in 2001, up from 95% in 1980. The capital city, Brussels, had a population of 1,121,000 in that year. Other major urban areas are located within 100 km (60 mi) of Brussels. The largest cities include Antwerp (Antwerpen, Anvers), 470,349; Gent (Ghent, Gand), 230,543; Charleroi, 206,779; Liège (Luik), 196,825; Brugge (Bruges), 117,460; and Namur (Namen), 103,466. According to the United Nations, the urban population growth rate for 2000–2005 was 0.1%.

The government has conducted a census every 10 years since 1848. Since 1984 the registration of births and deaths has been delegated to the Flemish and Walloon language communities. Belgium's population has distinctive language and ethnic divisions. The Ardennes region in the south is the least densely populated region.

## 7 MIGRATION

At the end of 2001, 862,000 persons of foreign nationality were living in Belgium. About 65% were those of other EU countries, primarily Italy, France, The Netherlands, and Spain. There were also a considerable number of Moroccans and Turks living in Belgium that year. The net migration rate of Belgium was 1.3 migrants per 1,000 population in 2000.

As of 2000, Belgium hosted approximately 18,000 refugees. In 2001 there were 24,550 asylum applications, mostly from the Russia and Yugoslavia. There were also a considerable number of asylum application from citizens of Algeria, the DROC, and Iran.

## 8 ETHNIC GROUPS

Two thousand years ago the population of Belgium, as mentioned by Julius Caesar in his book on the Gallic wars, was of Celtic stock. This population was displaced or lost its identity, however, during the great invasions that brought down the Roman Empire. The Salian Franks, who settled there during the 4th century AD, are considered the ancestors of Belgium's present population. The origin of the language frontier in Belgium has never been satisfactorily explained. In the indigenous population, the ratio of Flemings (Dutch speakers) to Walloons (French speakers) is about 5 to 3. In 2002, the Flemings constituted about 58% of the total population; Walloons accounted for 31%. The remaining 11% was comprised of those with mixed ancestry or other groups.

## 9 LANGUAGES

According to a 1970 constitutional revision, there are three official languages in Belgium—French, Dutch (also called Flemish), and German. Dutch is the language of the four provinces of Antwerp, Limburg, East Flanders (Oost-Vlaanderen), and West Flanders (West-Vlaanderen), which form the northern half of the country. French is the language of the four southern Walloon provinces of Hainaut, Liège, Luxembourg, and Namur. The central province of Brabant is divided into three districts—one French-speaking (Nivelles, Nijvel), one Dutch-speaking (Leuven, Louvain), and one bilingual

(composed of the 19 boroughs of the capital city, Brussels). The majority of people in the Brussels metropolitan area are French-speaking.

The relationship between the two major language groups has been tense at times. For many years, French was the only official language. A series of laws enacted in the 1930s established equality between the two languages. Dutch became the language of administration, the schools, and the courts in the Flemish region (Flanders), while French continued to be the language of Wallonia. The use of German is regulated in the same way in the German-speaking municipalities in the province of Liège. As a rule, French is studied in all secondary schools in the Flemish region, while Dutch is a required secondary-school subject in Wallonia.

In 1963, a set of laws created four linguistic regions (with bilingual status for Brussels), a decision incorporated into the constitution in 1970. Subsequent legislation in 1971–74 provided for cultural autonomy, regional economic power, and linguistic equality in the central government. Disagreement over the future status of bilingual Brussels intensified during the late 1970s. In 1980, after a political crisis, the Flemish and Walloon regions were given greater autonomy, but the issue of Brussels, a predominantly French-speaking territory surrounded by a Dutch-speaking region, remained intractable and was deferred. According to 2002 estimates, 60% of the total population speak Dutch (Flemish), 40% speak French, less than 1% speak German, and 11% are legally bilingual in Dutch and French.

## 10 RELIGIONS

Religious liberty is guaranteed by the constitution, and no inquiries regarding religion are made by census takers. According to a 2002 report, however, about 75% of the population is Roman Catholic, and 25% are Protestant or other. The Muslim population numbers about 350,000, 90% of whom are Sunni. Protestants number between 90,000 and 100,000. Greek and Russian Orthodox adherents number about 100,000. The Jewish community is approximately 40,000, and Anglicans number approximately 21,000. The largest unrecognized religions include the Jehovah's Witnesses, with 27,000 members and Mormons, with about 3,000 members. About 350,000 people belong to "laics," the government's term for nonconfessional philosophical organizations. Unofficial estimates report that up to 10% of the population do not practice any religion at all.

## 11 TRANSPORTATION

In 2002, the densest railway network in the world comprises 3,422 km (2,126 mi) of track operated by the government-controlled Belgian National Railway Co. In addition, Belgium has a regional railway network of 27,950 km (17,367 mi). The road network comprises 145,774 km (90,584 mi) of paved highways, including 1,674 km (1,040 mi) of expressways. All major European highways pass through Belgium.

Inland waterways comprise 2,043 km (1,270 mi) of rivers and canals, and are linked with those of France, Germany, and the Netherlands. In 2001, 1,570 km (976 mi) of these waterways are in regular commercial use. The chief port, Antwerp (one of the world's busiest ports), on the Scheldt River, about 84 km (52 mi) from the sea, handles three-fourths of the country's foreign cargo. Other leading ports are Gent and Zeebrugge. Liège is the third-largest inland river port in Western Europe, after Duisburg, Germany, and Paris. In 2001 the Belgian merchant fleet was comprised of 20 vessels, with a total of 31,362 GRT (54,058 DWT). The fleet numbered 101 ships (2.2 million GRT) in 2002, but offshore registry programs and so-called "flags of convenience" have enticed ship owners into foreign registry.

In 2001, there were an estimated 42 airports, 25 with paved runways. The Belgian national airline, Sabena, formed in 1923, is the third-oldest international airline. Brussels' National Airport,



LOCATION: 49°29' 52" to 51°30' 21" N; 2°32' 48" to 6°25' 38" E. BOUNDARY LENGTHS: Netherlands, 450 kilometers (280 miles); Germany, 162 kilometers (101 miles); Luxembourg, 148 kilometers (92 miles); France, 620 kilometers (385 miles); North Sea, 66 kilometers (41 miles). TERRITORIAL SEA LIMIT: 12 miles.

an important international terminus, is served by more than 30 major airlines. In 2001, 8,489,000 passengers flew on scheduled domestic and international flights.

## 12 HISTORY

Belgium is named after the Belgae, a Celtic people whose territory was conquered in 57 BC by Julius Caesar and was organized by him as Gallia Belgica. In 15 BC, Augustus made Gallia Belgica (which at that time included much of present-day France) a province of the Roman Empire. In the 5th century AD, it was overrun by the Franks, and in the 8th century, it became part of the empire of Charlemagne. But this empire soon fell apart, and in the 10th century there emerged several feudal units that later would become provinces of Belgium. These included the counties of Flanders, Hainaut, and Namur, the duchy of Brabant, and the prince-bishopric of Liège. During the three following centuries, trade flourished in the towns of the county of Flanders. Antwerp, Bruges, Ypres (Ieper), and Ghent in particular became very prosperous. In the 15th century, most of the territory that currently forms Belgium, the Netherlands, and Luxembourg—formerly called the Low Countries and now called the Benelux countries—came under the rule of the dukes of Burgundy as the result of a shrewd policy of intermarriage. Through the marriage of Mary of Burgundy with Archduke Maximilian of Austria, those same provinces, then collectively known as the Netherlands, became part of the Habsburg Empire in the early 1500s. When Maximilian's grandson Emperor Charles V divided

his empire, the Netherlands was united with Spain (1555) under Philip II, who dedicated himself to the repression of Protestantism. His policies resulted in a revolt led by the Protestants.

Thus began a long war, which, after a 12-year truce (1609–21), became intermingled with the Thirty Years' War. Under the Treaty of Westphalia (1648), which ended the Thirty Years' War, independence was granted to the northern Protestant provinces. The southern half remained Roman Catholic and under Spanish rule. By this time, the southern Low Countries (the territory now known as Belgium) had become embroiled in Franco-Spanish power politics. Belgium was invaded on several occasions, and part of its territory was lost to France.

Under the Peace of Utrecht (1713), which concluded the War of the Spanish Succession, Belgium became part of the Austrian Empire. The country was occupied by the French during the War of the Austrian Succession (1744) but was restored to Austria by the Treaty of Aix-la-Chapelle (1748). Belgium entered a period of recovery and material progress under Maria Theresa and her son Joseph II. The latter's administrative reforms created widespread discontent, however, which culminated in the Révolution Brabançonne of 1789. Leopold II, successor to Joseph II, defeated the Belgians and reoccupied the country, but his regime won little popular support. In 1792, the French army invaded the Belgian provinces, which were formally ceded to France by the Treaty of Campo Formio (1797). This French regime was defeated by the anti-Napoleonic coalition at Waterloo in 1815.

Belgium was united with the Netherlands by the Congress of Vienna in 1815. This action caused widespread discontent, culminating in a series of uprisings. The Dutch were compelled to retreat, and on 4 October 1830, Belgium was declared independent by a provisional government. The powers of the Congress of Vienna met again at London in June 1831 and accepted the separation of Belgium and the Netherlands. However, William I, king of the United Netherlands, refused to recognize the validity of this action. On 2 August 1831, he invaded Belgium, but the Dutch force was repulsed by a French army. In 1839, he was forced to accept the Treaty of the XXIV Articles, by which Belgian independence was formally recognized. The European powers guaranteed Belgium's status as "an independent and perpetually neutral state."

In 1831, the Belgian Parliament had chosen Prince Leopold of Saxe-Coburg-Gotha as ruler of the new kingdom, which was already in the process of industrialization. In 1865, Leopold I was succeeded by Leopold II (r.1865–1909), who financed exploration and settlement in the Congo River Basin of Africa, thereby laying the foundations of Belgium's colonial empire. Leopold's nephew, Albert I, came to the throne in 1909. At the outbreak of World War I, German troops invaded Belgium (4 August 1914). The Belgian army offered fierce resistance, but by the end of November 1914, the only Belgian towns not occupied by the Germans were Nieuport (Nieuwpoort), Furnes (Veurne), and Ypres. Belgium, on the side of the Allies, continued to struggle to liberate the kingdom. Ypres, in particular, was the scene of fierce fighting: nearly 100,000 men lost their lives at a battle near there in April and May 1915 (during which the Germans used chlorine gas), and at least 300,000 Allied troops lost their lives in this region during an offensive that lasted from late July to mid-November 1917.

Under the Treaty of Versailles (1919), Germany ceded to Belgium the German-speaking districts of Eupen, Malmédy, St. Vith, and Moresnet. The country made a remarkable recovery from the war, and by 1923, manufacturing industries were nearly back to normal. After a heated controversy with Germany over reparations payments, Belgium joined France in the occupation of the Ruhr in 1923. In 1934, Leopold III succeeded Albert.

Belgium was again attacked on 10 May 1940, when, without warning, the German air force bombed Belgian airports, railroad stations, and communications centers, and Belgian soil was invaded. Antwerp fell on 18 May and Namur on 23 May. By the end of the month, British, French, and Belgian forces were trapped in northwestern Belgium. King Leopold III surrendered unconditionally on 28 May and was taken prisoner of war. The Belgian government-in-exile, in London, continued the war on the side of the Allies. With the country's liberation from the Germans by the Allies and the well-organized Belgian underground, the Belgian government returned to Brussels in September 1944. During the Allied landings in Normandy, King Leopold III had been deported to Germany. In his absence, his brother Prince Charles was designated by parliament as regent of the kingdom.

The country was economically better off after World War II than after World War I. However, a tense political situation resulted from the split that had developed during the war years between Leopold III and the exiled government in London, which had repudiated the king's surrender. After his liberation by the US 7th Army, the king chose to reside in Switzerland. On 12 March 1950, 57.7% of the Belgian electorate declared itself in favor of allowing Leopold III to return as sovereign. The general elections of 4 June 1950 gave an absolute majority to the Christian Social Party, which favored his return, and on 22 July 1950, Leopold came back from exile. But the Socialists and Liberals continued to oppose his resumption of royal prerogatives, and strikes, riots, and demonstrations ensued. On 1 August 1950, Leopold agreed to abdicate, and on 17 July 1951, one day after Leopold actually

gave up his throne, his son Baudouin I was formally proclaimed king.

In 1960, the Belgian Congo (now the Democratic Republic of the Congo), a major vestige of Belgium's colonial empire, became independent. The event was followed by two years of brutal civil war, involving mercenaries from Belgium and other countries. Another Belgian territory in Africa, Ruanda-Urundi, became independent as the two states of Rwanda and Burundi in 1962.

Belgium was transferred into a federal state in July 1993. The country is divided into three regions (Flanders, Wallonia, and Brussels) and three linguistic communities (Flemish, French, and German). Voters directly elect members to the regional parliaments. The French-speaking branch of the Socialist party dominates Wallonia while the Dutch-speaking faction of the Christian Democratic Party governs Flanders. As a participant in the Marshall Plan, a member of NATO, and a leader in the movement for European integration, Belgium shared fully in the European prosperity of the first three postwar decades. Domestic political conflict during this period centered on the unequal distribution of wealth and power between Flemings and Walloons. The Flemings generally contended that they were not given equal opportunity with the Walloons in government and business and that the Dutch language was regarded as inferior to French. The Walloons, in turn, complained of their minority status and the economic neglect of their region and feared being outnumbered by the rapidly growing Flemish population. In response to these conflicts, and after a series of cabinet crises, a revised constitution adopted in 1970 created the framework for complete regional autonomy in economic and cultural spheres. In July 1974, legislation provided for the granting of autonomy to Flanders, Wallonia, and Brussels upon a two-thirds vote in Parliament. However, the necessary consensus could not be realized. In 1977, a Christian Social-Socialist coalition proposed to establish a federal administration representing the three regions, but could not obtain parliamentary approval for the proposal. In 1980, however, following several acts of violence as a result of the dispute, parliament allowed the establishment in stages of regional executive and legislative bodies for Flanders and Wallonia, with administrative control over cultural affairs, public health, roads, and urban projects.

Labor unrest and political violence have erupted in recent years. In 1982, as a result of an industrial recession, worsened by rising petroleum prices and debt servicing costs, the government imposed an austerity program; an intensification of the austerity program, announced in May 1986, aimed to cut public sector spending, restrain wages, and simplify the taxation system. Vigorous trade-union protests have taken place to protest the freezing of wages and cuts in social security payments. Belgium has one of the largest national debts in Western Europe. Since 1995, however, unions have gone along with a pay freeze to restore profitability and improve labor market performance.

A riot in May 1985, at a soccer match between English and Italian clubs, caused the death of 39 spectators and precipitated a political crisis. The government coalition collapsed over charges of inefficient policing, and a general election returned the Christian Social-Liberal alliance to power in November 1985. This in turn accelerated terrorist attacks on public places as well as NATO facilities, responsibility for which was claimed by an extreme left-wing group, Cellules Combattantes Communistes (CCC). Security was tightened in 1986. Linguistic disputes between the French- and Dutch-speaking sections have continued to break out. Extremist parties have sought to capitalize on anti-immigrant feeling among the general population. The Flemish Block is the third-largest party in Flanders and openly advocates an independent Flanders in order to get rid of French-speakers and foreigners.

Economic performance was buoyant from 1996, with growth rates averaging close to 3%; however, with the global economic

downturn of the beginning of the 21st century, Belgium's growth rates have lowered. As of 2002 Belgium had a balanced budget. Belgium joined the European economic and monetary union in January 1999 with no problems. Actual unemployment is around 11% as of 2002 but is closer to 20% if elderly unemployed people and people in special government-sponsored programs are included.

Parliamentary elections were held on 18 May 2003, and the Flemish Liberals and Democrats (VLD) finished first in the Flemish elections, defeating the Socialists and Christian Democrats, and the far-right Vlaams Blok. In Wallonia, the Socialists came in first. In both elections, the Greens suffered. Prime Minister Guy Verhofstadt, in office since 1999, was expected to form a center-left coalition of Liberals and Socialists after the May elections. Under Prime Minister Verhofstadt's leadership, Belgium by 2003 had legalized euthanasia and the use of marijuana, and had approved gay marriages.

Under Belgium's "universal jurisdiction" law, enacted in 1993, Belgian courts can hear cases involving war crimes and crimes against humanity even if the crimes were not committed in Belgium and did not involve Belgian citizens. Amendments to the law in April 2003 made it harder to bring a case where neither victim, plaintiff, or accused are Belgian. Israeli Prime Minister Ariel Sharon and former US president George H. W. Bush were charged with war crimes under the law, relating to the 1982 Sabra and Shatila massacres in Lebanon, and the bombing of a civilian shelter in the 1991 Gulf War, respectively.

The European Union was divided over the use of military force by the United States and UK in the months leading up to the war in Iraq that began on 19 March 2003. Belgium stood with France and Germany in opposing a military response to the crisis.

### 13 GOVERNMENT

Belgium is a hereditary monarchy governed under the constitution of 1831. This document has been frequently amended in recent years to grant recognition and autonomy to the Dutch- and French-speaking communities. Executive power is vested in the king, who appoints and removes ministers, civil servants, judges, and officers. In June 1991, parliament approved a constitutional amendment to allow female members of the royal family to succeed to the throne. The monarch, however, would continue to be known as king regardless of gender.

With approval of parliament, the king has the power to declare war and conclude treaties; he is commander-in-chief of the armed forces. According to the constitution, the king's rights include conferring titles of nobility, granting pardons, and administering the coinage of money. However, none of the king's acts becomes effective unless countersigned by a minister, who assumes responsibility for such acts before parliament. Therefore, the king must choose ministers who represent the majority in parliament. Each ministry is created in response to necessity, and there is no fixed number of ministers.

Legislative power is vested in the king and in the two-chamber parliament. The Chamber of Representatives has 150 members, who are elected for a four-year term through a system of proportional representation. The Senate has 71 members, with 40 directly elected and 31 indirectly elected or co-opted for a four-year term. All persons 18 years of age and older are entitled to vote in parliamentary elections, and those who fail to vote are subject to fines. In time of emergency, the king may convoke extraordinary sessions. The government and both chambers may introduce legislation, and both chambers have equal rights. When a bill is introduced, a committee examines it and appoints a rapporteur, who reports on it before the full assembly. The king may dissolve the chambers either simultaneously or separately, but an election must be provided for within 40 days and a session of the new parliament must meet within two months.

In accordance with the constitutional reform of 1980, there are three communities: the Dutch-, the French-, and the German-speaking communities. They have, in a wholly autonomous manner, responsibility for cultural affairs, education, and for matters concerning the individual. There are also three regions (Flanders, Wallonia, and Brussels), which are responsible for the regional aspects of a broad range of concerns, including the economy, energy, public works and housing, employment, and environmental policy. The institutions of the communities and regions are based on the same principles as those of the national political structure: each entity has a "regional parliament" (the council), whose decisions are implemented by a "regional government" (the executive). The council and the executive are directly elected and can only be brought down by a vote of no confidence.

On 14 July 1993, parliament approved a constitutional revision creating a federal state.

### 14 POLITICAL PARTIES

Political parties in Belgium are organized along ethnolinguistic lines, with each group in Flanders having its Walloon counterpart. The three major political alliances are the Christian Social parties, consisting of the Parti Social Chrétien (PSC) and the Christelijke Volkspartij (CVP); the Socialist parties, the Parti Socialiste (PS) and Socialistische Partij (SP); and the Liberal parties, Parti Réformateur et Liberal (PRL) and Flemish Liberal Democrats (VLD). The People's Union (Volksunie, or VU) was the Flemish nationalistic party, while the French-speaking Democratic Front (Front Démocratique des Francophones—FDF) affirms the rights of the French-speaking population of Brussels. The Flemish Block (Vlaams Blok—VB) is separatist and antiforeigner while the much smaller far-right National Front (Front Nationale—FN) is openly racist and xenophobic. In 2001, the CVP was renamed the Christian Democratic and Flemish Party (CD and V); the SP was renamed the Social Progressive Alternative Party, or SPA; and the VU split into two parts—the conservative wing established the New Flemish Alliance (NVA), and the left-liberal wing became the Spirit Party. Agalev is the Flemish Green Party, and Ecolo represents francophone Greens. In 2002, the PSC was renamed the Democratic Humanistic Center (CDH), and the PRL, FDF, and the MCC or Movement of Citizens for Change (created in 1998 by a former leader of the francophone Christian Democrats), formed a new alliance called the Reform Movement (MR). Although these changes in parties' names and new groupings have taken place in the last few years, the Belgian political landscape has not been seriously reorganized.

Following the 13 June 1999 election, party strength in the Chamber of Representatives was as follows: CVP, 14.1% (22 seats); PS, 10.1% (19 seats); SP, 9.6% (14 seats); VLD, 14.31% (23 seats); PRL, 10.1% (18 seats); PSC, 5.9% (10 seats); VB, 9.9% (15 seats); VU, 5.6% (8 seats); ECOLO, 7.3% (11 seats); AGALEV, 7.0% (9 seats); FN 1.5% (1 seat) (150 total seats).

The 1999 election ended the political career of Prime Minister Jean-Luc Dehaene, the Flemish Christian Democrat who led a center-left coalition of francophone and Flemish socialists and his francophone Christian Democratic Party throughout the 1990s. Six parties (French-speaking and Dutch-speaking branches of the Liberal, Socialist, and Green parties) reached a core agreement only three weeks after the election on forming a "blue-red-green" coalition government. It was Belgium's first government in 40 years not to include the Christian Democrats, the first to include the Greens, and the first since 1884 to be led by a Liberal prime minister (Guy Verhofstadt).

The presence of the Greens means a commitment to a progressive withdrawal from nuclear energy, starting with gradual decommissioning of nuclear power stations more than 40 years old. However, the Greens were dealt a setback in the 2003

elections. In the 18 May 2003 elections, the party strength was distributed as follows: VLD, 15.4% (25 seats); SP.A-Spirit, 14.9% (23 seats); CD and V, 13.2% (21 seats); PS, 13% (25 seats); VB, 11.6% (18 seats); MR, 11.4% (24 seats); CDH, 5.5% (8 seats); N-VA, 3.1% (1 seat); Ecolo, 3.1% (4 seats); Agalev, 2.5%, no seats; FN, 2%, (1 seat), and Vivant (Alive), a human rights party, took 1.2% of the vote but secured no seats. Verhofstadt was expected to form a center-left coalition government.

### 15 LOCAL GOVERNMENT

Belgium is divided into 10 provinces: Antwerp, East Flanders, West Flanders, and Limburg in the north, Hainaut, Liège, Luxembourg, and Namur in the south, Flemish Brabant, and Walloon Brabant. Each of the provinces has a council of 50 to 90 members elected for four-year terms by direct suffrage and empowered to legislate in matters of local concern. A governor, appointed by the king, is the highest executive officer in each province.

There are 589 communes. Each municipality has a town council elected for a six-year term. The council elects an executive body called the board of aldermen. The head of the municipality is the burgomaster, who is appointed by the sovereign upon nomination by the town council. Recently, the number of municipalities has been greatly reduced through consolidation.

In 1971, Brussels was established as a separate bilingual area, presided over by a proportionally elected metropolitan council. Linguistic parity was stipulated for the council's executive committee.

### 16 JUDICIAL SYSTEM

Belgian law is modeled on the French legal system. The judiciary is an independent branch of government on an equal footing with the legislative and the executive branches. Minor offenses are dealt with by justices of the peace and police tribunals. More serious offenses and civil lawsuits are brought before district courts of first instance. Other district courts are commerce and labor tribunals. Verdicts rendered by these courts may be appealed before 5 regional courts of appeal or the 5 regional labor courts in Antwerp, Brussels, Ghent, Mons, and Liège. All offenses punishable by prison sentences of more than five years must be dealt with by the eleven courts of assize (one for each province and the city of Brussels), the only jury courts in Belgium. The highest courts are five civil and criminal courts of appeal and the supreme Court of Cassation. The latter's function is to verify that the law has been properly applied and interpreted. The constitutionality of legislation is the province of the Council of State, an advisory legal group.

When an error of procedure is found, the decision of the lower court is overruled and the case must be tried again. The death penalty was abolished for all crimes in Belgium in 1996.

A system of military tribunals, including appellate courts, handle both military and common-law offenses involving military personnel. The government is considering narrowing the jurisdiction of these courts to military offenses. All military tribunals consist of four officers and a civilian judge.

Detainees must be brought before a judge within 24 hours of arrest. Although there are provisions for bail, it is rarely granted. Defendants have right to be present, to have counsel, to confront witnesses, to present evidence, and to appeal.

### 17 ARMED FORCES

Belgium's active armed forces in 2002 numbered 39,260, including 3,230 women and a 1,860-member medical service. Army personnel numbered 26,400, equipped with 132 main battle tanks. Army reserves included 100,500 individuals. The air force, with 8,600 personnel, operated 90 combat aircraft. The

navy numbered 2,400. In 2001–02 Belgium spent \$3.1 billion on defense, or 1.4% of GDP.

### 18 INTERNATIONAL COOPERATION

Belgium is a charter member of the UN, having joined on 27 December 1945, and participates in ECE and all the non-regional specialized agencies. Paul-Henri Spaak of Belgium served as the UN General Assembly's first president (1946–47); from 1957 to 1961, he served as the secretary-general of NATO, of which Belgium is also a member. The country has been partnered with Luxembourg in the Belgium-Luxembourg Economic Union (BLEU) since 1922. In 1958, Belgium signed a treaty forming the Benelux (Belgium-Netherlands-Luxembourg) Economic Union, following a 10-year period in which a customs union of the three countries was in effect. Belgium is also a member of the Asian Development Bank, Council of Europe, EU, and OECD, is a permanent observer of the OAS, and is a signatory to the Law of the Sea and a member of the WTO.

Brussels, the seat of EU institutions, has become an important regional center for Western Europe. In 1967, the Supreme Headquarters Allied Powers Europe (SHAPE) was transferred from Rocquencourt, near Paris, to a site near Mons. On 16 October 1967, the NATO Council's headquarters were moved from Paris to Brussels.

### 19 ECONOMY

In relation to its size and population, Belgium is among the most highly industrialized countries in Europe. Poor in natural resources, it imports raw materials in great quantity and processes them largely for export. Exports equal around two-thirds of GDP, and about three-quarters of Belgium's foreign trade is with other EU countries.

For a century and a half, Belgium has maintained its status as an industrial country, not only by virtue of its geographical position and transport facilities but also because of its ability for most of this period to shape production to meet the changing requirements of world commerce. Since the 1950s, the Belgian parliament has enacted economic expansion laws to enable long-established industries to modernize obsolete plant equipment. Belgium's highly developed transportation systems are closely linked with those of its neighbors. Its chief port, Antwerp, is one of the world's busiest. Belgium has a highly skilled and productive workforce, and the economy is diversified. By 2002, the service sector accounted for approximately 70% of GDP, followed by manufacturing (25%) and agriculture (2%).

Real growth averaged 5.4% annually during 1967–73 but, like that of other OECD countries, slumped to 2.5% during 1973–80, and 0.7% during 1981–85. It averaged 2.6% during 1984–91 and was 2.3% in 1995. In 1993, Belgium's recession was the most severe in the EU after Germany's. By 1998, real growth stood at 2.8%. Economic growth was expected to rise to some 3% in 2004 as a result of a recovery from the global economic downturn existing in 2001–03 (GDP growth in 2001 was estimated at 1.1%). The government will need to keep the budget from falling into deficit; budget surpluses will be needed until around 2030 to provide for the costs of an ageing population.

In 1993, when Belgium became a federal state with three distinct regions (Flanders, Wallonia, and Brussels), substantial economic powers were given to each region, such as jurisdiction over industrial development, research, trade promotion, and environmental regulation. Belgium has been seen as a "laboratory state," in that its federal system might stand as a precursor to a more unified EU based on regional divisions.

A UN study in 2002 listed Belgium as having the fourth-highest standard of living in the world. However, being a highly taxed and indebted country, some businesses have stated Belgium stifles private enterprise. Belgium in 2003 had had a balanced budget since 2000, the first in 50 years.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Belgium's gross domestic product (GDP) was estimated at \$297.6 billion. The per capita GDP was estimated at \$29,000. The annual growth rate of GDP was estimated at 0.6%. The average inflation rate in 2002 was 1.7%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 1% of GDP, industry 24%, and services 74%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$100.9 million. Worker remittances in 2001 totaled \$91.21 million.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$16,711. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 1%. Approximately 17% of household consumption was spent on food, 8% on fuel, 3% on health care, and 1% on education. The richest 10% of the population accounted for approximately 23.0% of household consumption and the poorest 10% approximately 3.2%. It was estimated that about 4% of the population had incomes below the poverty line.

## 21 LABOR

As of 2001, the Belgian workforce totaled 4.44 million people. In 1999, the service industry employed 73% of workers, 25% were employed in industry, and 2% in agriculture. The overall unemployment rate climbed to 12% in 1998, but fell to 7.2% by 2002.

The law provides workers with the right to associate freely and workers fully exercise their right to organize and join unions. Approximately 60% of workers are union members. Workers have a broad right to strike except in "essential" industries including the military. A single collective bargaining agreement, negotiated every other year, covers about 2.4 million private sector workers. This gives unions considerable control over economic policy. In addition, unions also freely exercise the right to strike.

Belgium has a five-day, 39-hour workweek, and work on Sundays is prohibited. Children under the age of 15 years are prohibited from working. Those between the ages of 15 and 18 may engage in part-time work-study programs, or work during school vacations. Child labor laws and standards are strictly enforced. In 2001, the national minimum wage was \$1,050 per month. This minimum wage provides a decent standard of living for workers and their families.

## 22 AGRICULTURE

Agriculture's role in the economy continues to decrease. In 1999, about 2% of the employed population worked on farms, compared with 3.7% in 1973. Agriculture's share in the GNP fell from 3.8% in 1973 to about 1.5% in 2001. Many marginal farms have disappeared; the remaining farms are small but intensively cultivated. Average farm size grew from 6.17 hectares (15.2 acres) in 1959 to 18.78 hectares (46.4 acres) in 1995, when there were 72,865 farms (down from 269,060 in 1959). About 80% of the country's food needs are covered domestically. The richest farm areas are in Flanders and Brabant. About 1.4 million hectares (3.4 million acres), or 45% of Belgium's total area, are under cultivation. Over half the land cultivated is used for pastureland or green fodder; one-quarter is used for the production of cereals. Total production of grains in 1999 was around 2.3 million tons, of which wheat accounted for about

65%; barley, 16%; corn, 11%; and spelt, triticale, oats, rye, and other grains, 8%.

Government price policy encourages increased production of wheat and barley with decreasing production of rye and oats. Increased emphasis is being placed on horticulture, and nearly all fruits found in temperate climates are grown in Belgium. Chief among these are apples, pears, and cherries. Producers of tomatoes and apples were obliged to refrain from marketing part of their 1992 harvests in order to hold up prices.

Belgium imports considerable quantities of bread and feed grains, fodder concentrates, and fruits. Its only agricultural exports are processed foods and a few specialty items such as endive, chicory, flower bulbs, sugar, and chocolates. In 2001, agricultural products amounted to 9.6% of exports; there was an agricultural trade surplus of \$2.6 billion that year.

## 23 ANIMAL HUSBANDRY

Livestock raising is the most important single sector of Belgian agriculture, accounting for over 60% of agricultural production. In 1999 there were about 3.2 million head of cattle, 7.6 million hogs, 155,000 sheep, and 22,000 horses. Belgian farmers breed some of the finest draft horses in the world, including the famous Percherons.

The country is self-sufficient in butter, milk, meat, and eggs. Some cheese is imported, mainly from the Netherlands. Milk production amounted to 3.3 million tons in 1999.

## 24 FISHING

The chief fishing ports are Zeebrugge and Ostend (Oostende, Ostende), from which a fleet of 156 boats (with a combined 23,262 GRT) sail the North Atlantic from the North Sea to Iceland. The total catch in 2000 was 29,800 tons, whose exports were valued at \$469 million. Principal species caught that year were plaice, sole, turbot, and cod.

## 25 FORESTRY

Forests cover 21% of the area of Belgium. Commercial production of timber is limited; industrial roundwood and sawn wood production in 2000 were estimated at 2.78 million cu m (98 million cu ft) and 1.06 million cu m (37 million cu ft), respectively. Most common trees are beech and oak, but considerable plantings of conifers have been made in recent years. Belgium serves as a large transshipment center for temperate hardwood logs, softwood lumber, and softwood plywood. Large quantities of timber for the woodworking industry are typically imported from the Democratic Republic of the Congo.

The total value of exports of forest products in 2000 was \$3.57 billion, with imports of \$4.31 billion. Belgium's wood processing industry consists of over 2,000 enterprises, over half of which are furniture manufacturers.

## 26 MINING

Belgium's only remaining active mining operations in 2001 were for the production of sand and gravel and the quarrying of some stone, including specialty marbles and the Belgian blue-gray limestone called "petit granite." An important producer of marble for more than 2,000 years, Belgium was recognized for the diversity and quality of its dimension stone. All the marble quarries are in Wallonia, and red, black, and gray are the principal color ranges of the marble. The country was an important producer of such industrial materials as carbonates, including limestone, dolomite, silica sand, whiting, and sodium sulfate.

The mineral-processing industry was a significant contributor to the Belgian economy in 2001. The refining of copper, zinc, and minor metals, and the production of steel (all from imported materials), were the most developed mineral industries in Belgium. The country possessed Europe's largest electrolytic

copper and zinc refineries, and one of the continent's largest lead refineries. In addition, Belgium retained its position as the world's diamond capital. Estimated production figures for 2001, in tons, included: secondary copper, 139,000; primary zinc, 230,000; hydraulic cement, 8 million tons; lime and dead-burned dolomite, 1.7 million tons; and quarried Belgian bluestone, or petit granite, 1.2 million cu m. Petite granite, which is actually a dark blue-gray crinoidal limestone, was one of the most important facing stones the country produces.

Belgium was once a major producer of coal, as the Belgian coal mining industry dates back to the 12th century. Coal was mined in the Sambre-Meuse Valley; the last mines closed in 1992. Metallic mining was in its heyday from 1850 to 1870, after which mining activity decreased until the last iron ore operations at Musson and Halanzy were closed in 1978. Belgium has no economically exploitable reserves of metal ores.

## 27 ENERGY AND POWER

In 1998 there were about 120 power stations operating in Belgium; installed capacity as of 2001 was 14,375,000 kW. Net power output in 2000 was 78.2 billion kWh, of which 40% was from fossil fuels, 57.7% was nuclear (up from 25% in 1981), and less than 1% was hydroelectric. Electricity consumption in the same year was 78.1 billion kWh. The principal sources of primary energy for conventional power production are low-grade coal and by-products of the oil industry. Belgium is heavily dependent on imports of crude oil, but it exports refined oil products. Power rates in Belgium are regulated through a voluntary agreement between labor, industry, and private power interests. In 2000, total energy consumption was 2.8 quadrillion Btu, of which 45% came from petroleum, 23% from natural gas, 12% from coal, 17% from nuclear energy, and the remainder from hydroelectric and other renewable sources.

## 28 INDUSTRY

Industry, highly developed in Belgium, is devoted mainly to the processing of imported raw materials into semifinished and finished products, most of which are then exported. Industry accounted for 24% of GDP in 2001. Steel production is the single most important sector of industry, with Belgium ranking high among world producers of iron and steel. However, it must import all its iron ore, which comes principally from Brazil, West Africa, and Venezuela. About four-fifths of Belgium's steel products and more than three-quarters of its crude steel output are exported. In recent years, Belgian industry has been hampered by high labor costs, aging plant facilities, and a shrinking market for its products. Nevertheless, industrial production rose by nearly 11% between 1987 and 1991, as a result of falling energy costs (after 1985) and financial costs, and only a moderate rise in wage costs. Industrial production continued to rise in the late 1990s; 1997 registered a 4% growth rate, while it slowed to 3.1% in 1998. The industrial growth rate in 2000 was 5.3%; it was -0.5% in 2001, and registered an estimated 0.6% in 2002.

Production of crude steel declined from 16.2 million tons in 1974 to 11.3 million tons in 1991, while the output of finished steel dropped from 12.2 million tons to 8.98 million. By 1981, 60% of all Belgian steel production and 80% of all Wallonian steel (concentrated in Charleroi and Liège) came under the control of a single company, the government-owned Cockerill-Sambre. Plans for this firm, whose government subsidies ended (in conformity with EC policy) in 1985, called for heavy investment in plant modernization, coupled with cutbacks in employment and plant capacity.

In 1998, Belgium produced 342,000 tons of crude copper. The country also produces significant amounts of crude zinc, and crude lead. The bulk of metal manufactures consists of heavy machinery, structural steelwork, and industrial equipment. The railroad equipment industry supplies one of the most extensive

railroad systems in Europe. The automotive industry is strong: Belgium produced 1,187,257 automobiles in 2001, a 15% increase over 2000. It also manufactured 30,499 heavy trucks in 2000, an increase of 20% over 1999. An important shipbuilding industry is centered in Temse, south of Antwerp. Belgian engineering and construction firms have built steel plants, chemical works, power stations, port facilities, and office buildings throughout the world.

The textile industry, dating from the Middle Ages, produces cottons, woolens, linens, and synthetic fibers. In 1991, spinning industry production (including cotton, wool, linen, and jute) totaled 172,329 tons of yarn, and the weaving industry produced 520,616 tons of fabric. With the exception of flax, all raw materials are imported. Centers of the textile industry are Bruges, Brussels, Verviers, Ghent, Courtrai (Kortrijk), and Malines (Mechelen). Carpets are made in large quantities at Saint-Nicolas (Sint-Niklaas). Brussels and Bruges are noted for fine linen and lace.

The chemical industry manufactures a wide range of products, from heavy chemicals and explosives to pharmaceuticals and photographic supplies. Production in 1991 included sulfuric acid, 1,935,921 tons; nitric acid, 1,439,533 tons; synthetic ammonia, 505,380 tons; and crude tar, 177,230 tons. The diamond-cutting industry in Antwerp supplies most of the US industrial diamond requirements: over 50% of the global business in uncut diamonds is carried out in Antwerp. Those working in the Belgian diamond industry are increasingly being pressured to refrain from buying "conflict diamonds" from Africa, whose proceeds have fueled civil wars in a number of African countries, including Sierra Leone, the Democratic Republic of the Congo, and Angola. Belgium has one of the largest glass industries in the world. Val St. Lambert is especially known for its fine crystal glassware. Belgian refineries (chiefly in Antwerp) turn out oil products.

## 29 SCIENCE AND TECHNOLOGY

The Royal Academy of Sciences, Letters, and Fine Arts, founded in Brussels in 1772, and since divided into French and Flemish counterparts, has sections for mathematics, physical sciences, and the natural sciences. There are, in addition, many specialized societies for the study of medicine, biology, zoology, anthropology, astronomy, chemistry, mathematics, geology, and engineering. The National Scientific Research Fund (inaugurated in 1928), in Brussels, promotes scientific research by providing subsidies and grants to scientists and students. The Royal Institute of Natural Sciences (founded in 1846), also in Brussels, provides general scientific services in the areas of biology, mineralogy, paleontology, and zoology. In 1987-97, science and engineering students accounted for 41% of college and university enrollment. In the same period, total research and development expenditures amounted to 1.6% of GNP; 2,201 technicians and 2,272 scientists and engineers per million people were engaged in research and development.

Among the nation's distinguished scientific institutions are the Center for the Study of Nuclear Energy in Mol (founded in 1952); the National Botanical Garden of Belgium in Meise (founded in 1870); the Royal Observatory of Belgium in Brussels (founded in 1826); the Institute of Chemical Research in Tervuren (founded in 1928); the Royal Meteorological Institute in Brussels (reorganized in 1913); the Von Karman Institute for Fluid Dynamics in Rhode-St-Genese (founded in 1956) and supported by NATO; and the Institute of Spatial Aeronomy in Brussels (founded in 1964). Belgium has 18 universities and colleges offering degrees in basic and applied sciences.

## 30 DOMESTIC TRADE

Brussels is the main center for commerce and for the distribution of manufactured goods. Other important centers include Antwerp, Liège, and Ghent. Most large wholesale firms engage in

import and export. Customary terms of sale are payment within 30–90 days after delivery, depending upon the commodity and the credit rating of the purchaser.

In 1994, the government began privatization efforts of several public sector corporations, including banks and airlines. The domestic market is relatively small. Instead, the economy relies heavily on trade as various industries have capitalized on the country's prime central European location, which serves as a regional transit and distribution center. The country also serves as a vital test market for many European goods and franchises.

Business hours are mainly from 8 or 9 AM to noon, and from 2 to 4:30 PM, Monday through Friday. Banks are open from 9 AM to 4 PM, Monday–Friday. Other private companies are usually open from 8:30 AM to 4 PM, Monday through Friday. Retail stores are generally open from 9 AM to 6 PM. Important international trade fairs are held annually in Brussels and Ghent. Advertising techniques are well developed, and the chief medium is the press. Advertising is prohibited on the national radio and television networks.

### 3<sup>1</sup>FOREIGN TRADE

Foreign trade plays a greater role in the Belgian economy than in any other EU country except Luxembourg. Exports constituted 81% of GDP in 2000. Belgium's chief exports are iron and steel (semi-finished and manufactured), chemicals, textiles, machinery, road vehicles and parts, nonferrous metals, diamonds, and foodstuffs. Its imports are general manufactures, foodstuffs, diamonds, metals and metal ores, petroleum and petroleum products, chemicals, clothing, machinery, electrical equipment, and motor vehicles. Belgium is partnered with Luxembourg in the BLEU.

According to the Belgian government, Belgium's imports in 2000 (as a percentage of overall imports) were as follows:

Food and live animals	6.8
Mineral fuels	8.8
Beverages and tobacco	1.1
Raw materials, other than mineral fuels	4.0

Principal exports of Belgium in 2000 (as a percentage of overall exports) were as follows:

Machinery and transport equipment	29.0
Mineral fuels	4.4
Food and live animals	7.8
Chemicals	18.2
Beverages and tobacco	0.8

In 2000, more than 64% of Belgium's foreign trade was carried on with EU countries. France was the leading customer in 2000. Germany was the chief supplier from 1953 to 1999, replacing the US, which in the years immediately after World War II had surpassed France. However, in the year 2000, the Netherlands usurped that position from Germany.

Machinery and transportation equipment make up the majority of Belgian export commodities, including passenger motor vehicles and motor vehicle parts and accessories (13.0%). Diamonds are another major export (7%), and Belgium is one of the world's largest exporters of floor coverings (1.1%). In 2000, the top seven exports are as follows:

	% OF COUNTRY TOTAL
Passenger motor vehicles	8.8
Diamonds	7.0
Polymers	5.6
Iron and steel	4.3
Medicinal and pharmaceutical products	3.7
Refined petroleum products	3.7
Floor coverings	1.1

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
France	32,487	21,659	10,828
Germany	30,964	28,136	2,828
Netherlands	23,146	29,893	-6,747
United Kingdom	18,400	14,563	3,837
United States	10,953	12,893	-1,940
Italy	10,184	6,746	3,438
Spain	6,683	3,109	3,529
Luxembourg	3,720	977	2,743
India	3,193	1,593	1,600
Israel	3,497	1,487	2,010

### 3<sup>2</sup>BALANCE OF PAYMENTS

Belgium-Luxembourg ran deficits on current accounts each year from 1976 through 1984. Trade deficits, incurred consistently in the late 1970s and early 1980s, were only partly counterbalanced by invisible exports, such as tourism and services, and capital transfers. The Belgian franc is equivalent at par with the Luxembourg franc; the two nations formed the Belgian-Luxembourg Economic Union (BLEU) in 1921. Belgium ranks among the top 10 trading nations in the world.

Belgium in the early 2000s was making progress on meeting the EU's Maastricht target of a cumulative public debt of not more than 60% of GDP. Belgium has one of the highest current account surpluses of all OECD countries, at 5% of GDP.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Belgium's exports was \$162 billion while imports totaled \$152 billion resulting in a trade surplus of \$10 billion.

The International Monetary Fund (IMF) reports that in 2001 Belgium had exports of goods totaling \$163 billion and imports totaling \$159.3 billion. The services credit totaled \$44.5 billion and debit \$40 billion. The following table summarizes Belgium's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>13,534</b>
Balance on goods	3,668
Balance on services	4,437
Balance on income	9,509
Current transfers	-4,081
<b>Capital Account</b>	<b>23</b>
<b>Financial Account</b>	<b>-11,109</b>
Direct investment abroad	-66,376
Direct investment in Belgium	50,460
Portfolio investment assets	-126,612
Portfolio investment liabilities	147,117
Other investment assets	-71,883
Other investment liabilities	62,984
<b>Net Errors and Omissions</b>	<b>-1,006</b>
<b>Reserves and Related Items</b>	<b>-1,442</b>

### 3<sup>3</sup>BANKING AND SECURITIES

The National Bank of Belgium (Banque Nationale de Belgique-BNB, founded in 1850), the sole bank of issue, originally was a joint-stock institution. The Belgian government took over 50% of its shares in 1948. Its directors are appointed by the government, but the bank retains a large degree of autonomy. In Belgium, most regulatory powers are vested in the Banking Commission, an autonomous administrative body that monitors compliance of all banks with national banking laws. In order to restrain inflation and maintain monetary stability, the BNB varied its official discount rate from 2.75% in 1953 to a peak of 8.75% in December 1974; by 1978, the rate was reduced to 6%, but it rose steadily to a high of 15% in 1981 before declining to 11.5% at the end of 1982 and 9.75% by December 1985. By 1993 the



discount rate was 5.25%. At the time of its abolition on December 15, 1998, the discount rate was 2.75%.

By law, the name "bank" in Belgium may be used only by institutions engaged mainly in deposit bank activities and short-term operations. Commercial banks are not authorized to invest long-term capital in industrial or business enterprises. The largest commercial bank, the General Banking Society, came into being in 1965 through a merger of three large banks. The National Society for Industrial Credit provides medium-term loans to industrial firms and exporters. Other institutions supply credit to small business and to farmers. The leading savings institute is the General Savings and Retirement Fund, which operates mainly through post office branches. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$63.1 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$241.7 billion.

The Bourse in Belgium is a very old institution. As early as the 13th century, merchants from the main commercial centers, particularly Genoa and Venice, used to gather in front of the house of the Van der Bourse family in Bruges, which was then the prosperous trading center of the low countries. The word "Bourse" is often considered to have originated in Bruges.

The Brussels Stock Exchange was founded in 1801 after Napoleon, then Consul of the Republic, issued a decree of the 13th Messidor in the 9th Year that "There shall be an exchange in Brussels, in the Department of the Dyle." The law of 30 December 1867, completely abolished the provisions then in force controlling the profession of broker, the organization of the exchanges and the operations transacted there. After the crisis of 1929 through 1933, a commission was created to assure investors of greater security. The Commercial Code of 1935 still controls the organization of the stock exchange in large measure. Since the law of 4 December 1990, the Société de la Bourse de valeurs mobilières de Bruxelles (SBVMB) is organized under the form of a cooperative society. There is also an exchange in Antwerp.

The exchanges deal in national, provincial, and municipal government bonds, government lottery bonds, and company shares. The issuance of shares and bonds to the public is subject to the control of the Banking Commission in Brussels. There are also a number of special industrial exchanges; the most prominent one is the Diamond Exchange in Antwerp.

### 34 INSURANCE

Insurance transactions are regulated by the Insurance Control Office of the Ministry of Economic Affairs. Compulsory classes of insurance in Belgium are workers' compensation, automobile liability, and inland marine liabilities. Life insurance in force at the end of 1991 totaled BFr7,957 billion. Life and disability insurance needs are to a large extent met by Belgium's extensive social security system. Compulsory insurance includes third-party automobile liability, workers' compensation, "no fault" liability for property owners with free access to property, hunter's liability, and nuclear liability for power facilities.

In 1996 and 1997, a general pattern of mergers and acquisitions among European union insurers formed, as companies sought to strategically take advantage of the single market in insurance, which became effective in July 1994. Many insurance companies throughout the European Union (EU) are considered too small to operate effectively on an international scale, to meet the challenge of *bancassurance*, or to invest sufficiently in the new technology needed to survive in the increasingly competitive industry.

### 35 PUBLIC FINANCE

The government's budgetary year coincides with the calendar year. In the final months of the year, the minister of finance places

before Parliament a budget containing estimated revenues and expenditures for the following year, and a finance law authorizing the collection of taxes is passed before 1 January. Inasmuch as expenditure budgets generally are not all passed by then, "provisional twelfths" enable the government to meet expenditures month by month, until all expenditure budgets are passed. Current expenditures, supposedly covered by the usual revenues (including all tax and other government receipts), relate to the normal functioning of government services and to pension and public debt charges. Capital expenditures consist mainly of public projects and are normally covered by borrowings.

Improvements in fiscal and external balances in the early 1990s and a slowdown in external debt growth enables the Belgian government to easily obtain loans on the local credit market. As a member of the G-10 group of leading financial nations, Belgium actively participates in the IMF, World Bank, and the Paris Club. Belgium is a leading donor nation, and it closely follows development and debt issues, particularly with respect to the DROC and other African nations.

The US Central Intelligence Agency (CIA) estimates that in 2000 Belgium's central government took in revenues of approximately \$113.4 billion and had expenditures of \$106 billion including capital expenditures of \$7.2 billion. Overall, the government registered a surplus of approximately \$7.4 billion. External debt totaled \$28.3 billion.

The following table shows an itemized breakdown of government revenues. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	113,400
Tax revenue	97.9%	111,034
Non-tax revenue	1.6%	1,835
Capital revenue	0.3%	338
Grants	0.2%	193

### 36 TAXATION

The most important direct tax is the income tax. Since enactment of the tax law of 20 November 1962, this tax has been levied on the total amount of each taxpayer's income from all sources. Income tax rates vary from 25% to 55%, excluding local taxes. Local taxes are levied at rates varying from 0% to 10%. Taxes are not paid in one lump sum, but rather by a series of prepayments on the various sources of income. There is a withholding tax on salaries that is turned over directly to the revenue officer. Self-employed persons send a prepayment to the revenue officer during the first half of July. Banks and stockbrokers who offer dividends must first deduct a prepayment of 25%. Taxes on real estate are based on the assessed rental value.

The corporate income tax, which is levied on all distributed profits, was lowered from 48% to 45% in 1982, to 43% in 1987, to 38% in 1993, and stands at 39% since 1996. Nondistributed profits are taxed at progressive rates ranging from 28% to 41%. In some instances, local government bodies are entitled to impose additional levies. Numerous tax exemptions are granted to promote investments in Belgium.

In 1971, a value-added tax system was introduced, replacing sales and excise taxes. A general rate of 21% was applied as of 1996 to industrial goods, with a reduced rate of 6% applying to basic necessities and an interim rate of 12% to certain other products.

### 37 CUSTOMS AND DUTIES

Customs duties are levied at the time of importation and are generally ad valorem. Belgium applies the EU common external tariff (CET) to goods imported from non-EU countries. There is a

single duty system (the CET) among all EU members for products coming from non-EU members. Theoretically, No customs duties apply for goods imported into Belgium from EU countries. Value-added taxes are levied on the importation of foodstuffs, tobacco, alcohol, beer, mineral water, and fuel oils. There are no export duties.

### 38 FOREIGN INVESTMENT

Foreign investment in Belgium generally takes the form of establishing subsidiaries of foreign firms in the country. Belgium is the economic as well as the political center of Europe. The Belgian government actively promotes foreign investment. In recent years, the government has given special encouragement to industries that will create new skills and increase export earnings. In 1982, a new system of tax exemptions encouraging investment in corporate stocks took effect. The government grants equal treatment under the law, as well as special tax inducements and assistance, to foreign firms that establish enterprises in the country. There is no regulation prescribing the proportion of foreign to domestic capital that may be invested in an enterprise. The foreign investor can repatriate all capital profits and long-term credit is available. Local authorities sometimes offer special assistance and concessions to new foreign enterprises in their area. Since the start of EU's single market, most, but not all, trade and investment rules have been implemented by Belgium in order to be in line with other EU member nations.

As of 1999, foreign investment stock in the Belgium-Luxembourg Economic Union (BLEU) totaled \$158.6 billion. In the boom years of 1999 and 2000, foreign direct investment (FDI) inflows into BLEU reached record levels: \$133 billion in 1999 and \$246 billion in 2000. The global economic slowdown sharply reduced inflows in 2001 to about \$51 billion, but this level was well ahead of the \$12 billion FDI inflow in 1997 and \$23 billion in 1998.

Countries with large investments include the United States, Germany, United Kingdom, Netherlands, France, and Switzerland. Total US investment in all industries was \$17.7 billion in 1998. In 2002, FDI inflow from the United States into BLEU totaled \$8.4 billion (\$3.5 billion to Belgium and \$4.9 billion to Luxembourg).

Belgium has well developed capital markets to accommodate foreign finance and portfolio investment. More than half its banking activities involve foreign countries. The world's first stock market was opened in Antwerp in the 14th century. At the end of 2000, the Brussels Stock Market merged with the Paris and Amsterdam bourses (and later Lisbon) to form the Euronext stock exchange. Euronext forms the largest (in volume) multinational stock and derivatives exchange in Europe. As of August 2002, Euronext listed 1,517 companies, about 370 foreign, with a total market capitalization close to \$1.6 trillion. In December of 2002, market capitalization of the Euronext listings had fallen to \$1.48 trillion and the number of listed companies to 1,484. In 1996, the European Association of Securities Dealers Automated Quotation (EASDAQ) Exchange, opened in Belgium modeled on the NASDAQ electronic exchange, dedicated to young dynamic "dot.com" start-ups. From the first quarter in 1999 to the first quarter 2000, the EASDAQ composite index soared from about 32,000 to a peak of 85,000. As the dot-com bubble burst, the EASDAQ composite index collapsed to below 15,000 by the first quarter of 2001. In April 2001, NASDAQ bought majority ownership and renamed it NASDAQ-Europe. As NASDAQ-Europe, a low of about 2,300 was reached in the first quarter of 2003. At the end of the second quarter 2003, the composite index was at 3,043.

Belgian investment abroad is substantial in the fields of transport (particularly in Latin American countries), nonferrous metals, metalworking, and photographic materials. In 1999,

outward investment from Belgium totaled \$119.8 billion and in 2000, \$82.34 billion.

### 39 ECONOMIC DEVELOPMENT

Belgian economic policy is based upon the encouragement of private enterprise, with very little government intervention in the economy. Also, as a country heavily dependent upon foreign trade, Belgium has traditionally favored the freest exchange of goods, without tariffs or other limitations. Restrictions on free enterprise and free trade have always been due to external pressure and abnormal circumstances, as in time of war or economic decline.

To meet increased competition in world markets and to furnish relief for areas of the country suffering from chronic unemployment, the government has taken measures to promote the modernization of plants and the creation of new industries. Organizations have been established to provide financial aid and advice, marketing and scientific research, studies on methods of increasing productivity, and nuclear research for economic utilization. Government policy aims at helping industry to hold costs down and to engage in greater production of finished (rather than semifinished) goods. Results have been mixed, with greater success in chemicals and light manufacturing than in the critical iron and steel industry.

In 1993, the government modified its policy of forbidding more than 49% private ownership in government banks, insurance companies, and the national telecommunications company. In 2000, the government enacted tax reform, reducing corporate, trade, and income taxes. The tax cuts planned through 2006, although improving work and investment incentives, will have to be countered by reduced government spending to compensate for the lost revenue. The telecommunications sector has been liberalized, as have the gas and energy markets. The postal market as of 2003 had been liberalized only to cover the transportation of large packages. Sending goods by rail had been open to cross-border competition only since the beginning of 2003. Belgium successfully attained a budget deficit of less than 3% by the end of 1997, as stipulated by the European Union (EU). Due to a strict control of spending, the budget was balanced in 2001. However, the Belgian economy remained weak in 2002, largely due to a slowdown in Germany and the Netherlands, Belgium's major trading partners. Investments declined for the first time ever, by 2.3%, in 2002.

### 40 SOCIAL DEVELOPMENT

Belgium has a social insurance system covering all workers dating back to 1900 for old age and 1944 for disability. The current law was last updated in 2001, and the age to receive full retirement benefits will be increasing to age 65 by 2009. The law provides for disability and survivorship benefits as well. Sickness and maternity benefits were originally established in 1894 with mutual benefits societies. There is work accident and occupational disease coverage for all employed persons.

The Belgian government has taken an active stance to protect and promote the rights of women and children. Domestic violence is a problem although the law provides for the police to enter a home without the consent of the head of household when investigation such allegations. Belgium's equal opportunity law includes a sexual harassment provision, giving women a stronger legal basis for complaints. In the same year, a law requiring one-third of all political candidates to be women took effect. Child protection laws are comprehensive, and children have the right to take any concerns or complaints directly to a judge. The government also attempts to integrate women at all levels of decision-making and women play an important role in both the public and private sectors.

Legislation prohibits discrimination based on race, ethnicity or nationality, and penalizes incitement of hate and discrimination.

The constitution provides for the freedom of religion. Although minority rights are well protected in Belgium, extreme-right political parties with xenophobic beliefs have gained ground in recent years.

#### 41 HEALTH

Every city or town in Belgium has a public assistance committee (elected by the city or town council), which is in charge of health and hospital services in its community. These committees organize clinics and visiting nurse services, run public hospitals, and pay for relief patients in private hospitals. There is a national health insurance plan, membership of which covers practically the whole population. A number of private hospitals are run by local communities or mutual aid societies attached to religious organizations. A school health program includes annual medical examinations for all school children. Private and public mental institutions include observation centers, asylums, and colonies where mental patients live in groups and enjoy a limited amount of liberty.

A number of health organizations, begun by private initiative and run under their own charters, now enjoy semiofficial status and receive government subsidies. Among them are the Belgian Red Cross, the National Tuberculosis Society, the League for Mental Hygiene, and the National Children's Fund. The last of these, working through its own facilities and through cooperating agencies, provides prenatal and postnatal consultation clinics for mothers, a visiting nurse service, and other health services. Health expenditures were estimated at 8.8% of total GDP as of 1999.

Roughly 60% of Belgium's hospitals are privately operated, nonprofit institutions. In 1995, there were 38,369 doctors in Belgium. The country had 287 hospitals at the beginning of 1997. As of 1999, there were an estimated 3.8 physicians and 7.3 hospital beds per 1,000 people. Nearly 100% of the Belgium population has access to health services. In 1999, the country immunized one-year-old children as follows: diphtheria, pertussis, and tetanus, 96%, and measles, 83%. The infant mortality rate in 2000 was 5 per 1,000 live births. Average life expectancy in 2000 was 78 years. As of 1999, the number of people living with HIV/AIDS was estimated at 7,700 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.15 per 100 adults. Between 1986 and 1994, 35% of the male population and 21% of the female population smoked.

#### 42 HOUSING

Belgium no longer has a housing shortage. In the mid-1970s, an average of over 60,000 new dwellings were built every year; by the early 1980s, however, the government sought by reducing the value-added tax on residential construction to revitalize the depressed housing market. Public funds have been made available in increasing amounts to support the construction of low-cost housing, with low-interest mortgages granted by the General Savings and Retirement Fund. In the 1980s, over half of all housing units were one-family houses, and approximately one-fourth were apartments. Owners occupied 60% of all dwellings and 35% were rented. Housing starts totaled 46,645 in 1992, up from 44,484 in 1991. The total number of dwellings in 1991 was 4,198,000. The same year, at least 85% of all dwellings had access to the basic conveniences of safe water and sanitation systems.

#### 43 EDUCATION

Adult illiteracy is virtually nonexistent. Education is free and compulsory for children between the ages of 6 and 18. The teaching language is that of the region—French, Dutch, or German.

Belgium has two complete school systems operating side by side. One is organized by the state or by local authorities and is

known as the official school system. The other, the private school system, is largely Roman Catholic. In 1995 private school enrollment accounted for 55.2% of all primary enrollment and 65.8% of secondary enrollment. For a long time, the rivalry between the public and private systems and the question of subsidies to private schools were the main issues in Belgian politics. The controversy was settled in 1958, and both systems are presently financed with government funds along more or less identical lines.

Since 1971, new constitutional guidelines have strengthened the autonomy of Wallonia and Flanders in educational administration and policymaking. Schools in both regions provide compulsory primary education for children from ages 6 through 12, followed by six years of secondary education.

In 1996, primary schools enrolled 742,796 students. The pupil-teacher ratio at the primary level was 13 to 1 in 1999. Secondary level schools had 1,058,998 students and approximately 127,000 teachers in 1996. Higher education centers on the eight main universities: the state universities of Ghent, Liège, Antwerp, and Mons; the two branches of the Free University of Brussels, which in 1970 became separate private institutions, one Dutch (Vrije Universiteit Brussel) and the other French (Université Libre de Bruxelles); the Catholic University of Brussels; and the Catholic University of Louvain, which also split in 1970 into the Katholieke Universiteit Leuven (Dutch) and the Université Catholique de Louvain (French). The higher-level institutions had 358,214 students in 1996.

Government expenditure for education rose rapidly after the school agreement of 1958 and accounted for about 6.0% of the government's budget in the latter part of the 1990s. As of 1999, public expenditure on education was estimated at 3.1% of GDP.

#### 44 LIBRARIES AND MUSEUMS

There are large libraries, general and specialized, in the principal cities. Brussels has the kingdom's main reference collections, the Royal Library (founded in 1837), with about four million volumes, as well as the Library of Parliament (1835) with 600,000 volumes, the Library of the Royal Institute of Natural Sciences (681,000 volumes), and the General Archives of the Kingdom, founded in 1794, with 350,000 documents from the 11th to the 20th centuries. Antwerp is the seat of the Archives and the Museum of Flemish Culture, which has an open library of 55,000 volumes. The university libraries of Louvain (1.2 million volumes), Ghent (three million volumes), and Liège (1.7 million volumes) date back to 1425, 1797, and 1817, respectively. The library of the Free University of Brussels (1846) has 1.8 million volumes. Also in Brussels is the library of Commission of the European Communities. In addition, there are several hundred private, special, and business libraries, especially in Antwerp and Brussels, including Antwerp's International Peace Information Service (1981) with 25,000 volumes related to disarmament, and the library of the Center for American Studies in Brussels, with 30,000 volumes dealing with American civilization.

Belgium's 200 or more museums, many of them with art and historical treasures dating back to the Middle Ages and earlier, are found in cities and towns throughout the country. Among Antwerp's outstanding institutions are the Open-Air Museum of Sculpture in Middelheim Park, displaying works by Rodin, Maillol, Marini, Moore, and others; the Rubens House, containing 17th-century furnishings and paintings by Peter Paul Rubens; and the Folk Art Museum (1907) featuring popular music and crafts unique to Flemish Culture and mythology. Brussels' museums include the Royal Museum of Fine Arts (founded 1795), which has medieval, Renaissance, and modern collections; Royal Museum of Central Africa (1897), which has rich collections of African arts and crafts, natural history, ethnography, and prehistory; the Royal Museum of Art and

History (1835), with its special collections of Chinese porcelain and furniture, Flemish tapestries, and of 18th- and 19th-century applied and decorative art; and the Museum of Modern Art, featuring 20th-century paintings, sculptures, and drawings. Museums in Bruges, Liège, Ghent, Malines, and Verviers have important general or local collections.

#### 45 MEDIA

International and domestic telegraph and telephone service, operated by a government agency, is well developed. There were 4,769,000 main line telephones in use in 1997 and 974,494 mobile cellular phones.

National radio and television service is organized into Dutch and French branches. Commercial broadcasting is permitted, hence costs are defrayed through annual license fees on radio and television receivers. There are two national medium-wave stations, one broadcasting in French, the other in Dutch. In addition, there are five Dutch-language and three French-language regional stations. Three shortwave transmitters are used for overseas broadcasts. As of 1999, there were 5 AM and 77 FM radio stations and 24 television stations. Cable television subscribers can receive up to 13 additional stations, from the UK and Belgium's continental neighbors. In 1997 there were 8 million radios and 4.7 million television sets.

The Belgian press has full freedom of expression as guaranteed by the constitution of 1831. Newspapers are published in French and Dutch, and generally reflect the views of one of the major parties. Agence Belga is the official news agency. Principal Belgian dailies with their 2002 circulations were as follows:

	LANGUAGE	ORIENTATION	CIRCULATION
BRUSSELS			
<i>De Standaard</i>	Dutch	Flemish-Catholic	372,000
<i>Het Laatste Nieuws</i>	Flemish	Independent	308,808
<i>Le Soir</i>	French	Independent	178,500
<i>La Lanterne</i>	French	Socialist	129,800
<i>La Libre Belgique</i>	French	Catholic-Independent	80,000
ANTWERP			
<i>De Gazet van Antwerpen</i>	Dutch	Christian Democrat	148,000
CHARLEROI			
<i>La Nouvelle Gazette</i>	French	Liberal	94,600
GHENT			
<i>Het Volk/Nieuwe Gids</i>	Dutch	Catholic-Labor	143,300

About 500 weeklies appear in Belgium, most of them in French or Dutch and a few in German or English. Their overall weekly circulation is estimated to exceed 6.5 million copies.

The government of Belgium supports free speech and a free press. There are some restrictions on the press regarding slander, libel, and the advocating of racial or ethnic hate, violence, or discrimination.

As of 2000, there were 61 Internet service providers with 2.8 million Internet users in 2001.

#### 46 ORGANIZATIONS

Among Belgium's numerous learned societies are the French and Dutch organizations each bearing the names of the Royal Academy of Sciences, Letters, and Fine Arts and the Royal Academy of Medicine; in addition, there are the Royal Academy of French Language and Literature and the Royal Academy of Dutch Language and Literature.

Business and industry are organized in the Belgium Business Federation (1885), the Chambers of Commerce, and the American Chamber of Commerce in Brussels, as well as on the basis of industrial sectors and in local bodies. Among the latter, the Flemish and Walloon economic councils and the nine provincial economic councils are the most important.

Architects, painters, and sculptors are organized in the Association of Professional Artists of Belgium. Among the other

occupational groups are the Belgian Medical Federation, the Association of Women Chief Executives, and the Belgian Students' Federation. There is a cultural council for each of the three official languages. The many sports societies include the Royal Belgian Athletic League, and soccer, cycling, archery, homing pigeon, tennis, hunting, boating, camping, and riding clubs. Veterans' and disabled veterans' associations, the Red Cross, Boy Scouts, Girl Scouts, voluntary associations to combat the major diseases, and philanthropic societies are all active in Belgium.

#### 47 TOURISM, TRAVEL, AND RECREATION

Belgium has three major tourist regions: the seacoast, the old Flemish cities, and the Ardennes Forest in the southeast. Ostend is the largest North Sea resort; others are Blankenberge and Knokke. Among Flemish cities, Bruges, Gent, and Ypres stand out, while Antwerp also has many sightseeing attractions, including the busy port, exhibitions of the diamond industry, and the Antwerp Zoo, an oasis of green in the city center. Brussels, home of the European Community headquarters, is a modern city whose most famous landmark is the Grand Place. The capital is the site of the Palais des Beaux-Arts, with its varied concert and dance programs, and of the Théâtre Royal de la Monnaie, home of the internationally famous Ballet of the 20th Century. St. Michael's Cathedral and Notre Dame du Sablon are the city's best-known churches. The Erasmus House in the suburb of Anderlecht and the Royal Palace and Gardens at nearby Laeken are popular tourist centers. Louvain possesses an architecturally splendid city hall and a renowned university. Malines, seat of the Belgian primate, has a handsome cathedral. Liège, in the eastern industrial heartland, boasts one of the finest Renaissance buildings, the palace of its prince-bishops. Tournai is famous for its Romanesque cathedral. Spa, in the Ardennes, is one of Europe's oldest resorts and gave its name to mineral spring resorts in general. Namur, Dinant, and Huy have impressive fortresses overlooking one of the most important strategic crossroads in Western Europe, the Meuse Valley.

For temporary visits, not exceeding three consecutive months each season, travelers should be in possession of a valid passport. No visa is required for citizens of the US, Canada, Australia, New Zealand, Japan, or most countries of Western Europe or Latin America.

There were 6.4 million visitor arrivals in 2000, when receipts from tourism amounted to US\$7.4 billion. In that year, Belgium had 61,890 hotel rooms.

In 2001 the US government estimated the daily cost of staying in Belgium as between \$80 and \$259.

#### 48 FAMOUS BELGIANS

Belgium has produced many famous figures in the arts. In the 15th century, one of the great periods of European painting culminated in the work of Jan van Eyck (1390?-1441) and Hans Memling (1430?-94). They were followed by Hugo van der Goes (1440?-82), and Pieter Brueghel the Elder (1525?-69), the ancestor of a long line of painters. Generally considered the greatest of Flemish painters are Peter Paul Rubens (1577-1640) and Anthony Van Dyck (1599-1641). In the 19th century, Henri Evenepoel (1872-99) continued this tradition. The 20th century boasts such names as James Ensor (1860-1949), Paul Delvaux (1897-1994), and René Magritte (1898-1967). Modern Belgian architecture was represented by Victor Horta (1861-1947) and Henry van de Velde (1863-1957).

Belgium made substantial contributions to the development of music through the works of such outstanding 15th- and 16th-century composers as Johannes Ockeghem (1430?-95), Josquin des Prés (1450?-1521), Heinrich Isaac (1450?-1517), Adrian Willaert (1480?-1562), Nicolas Gombert (1490?-1556), Cipriano de Rore (1516-65), Philippe de Monte (1521-1603),

and Roland de Lassus (known originally as Roland de Latre and later called Orlando di Lasso, 1532–94), the “Prince of Music.” Later Belgian composers of renown include François-Joseph Gossec (1734–1829), Peter Van Maldere (1729–68), André Ernest Modeste Grétry (1741–1813), César Franck (1822–90), and Joseph Jongen (1873–1953). Among famous interpreters are the violinists Eugène Ysaye (1858–1931) and Arthur Grumiaux (1921–86). André Cluytens (1905–67) was the conductor of the National Orchestra of Belgium. Maurice Béjart (Maurice Berger, b.1927), an internationally famous choreographer, was the director of the Ballet of the 20th Century from 1959 until 1999.

Outstanding Belgian names in French historical literature are Jean Froissart (1333?–1405?) and Philippe de Commines (1447?–1511?), whereas early Dutch literature boasts the mystical writing of Jan van Ruysbroeck (1293–1381). The 19th century was marked by such important writers as Charles de Coster (1827–79), Camille Lemonnier (1844–1913), Georges Eeckhoud (1854–1927), and Emile Verhaeren (1855–1916) in French; and by Hendrik Conscience (1812–83) and Guido Gezelle (1830–99) in Flemish. Among contemporary authors writing in French, Michel de Ghelderode (1898–1962), Suzanne Lilar (1901–1992), Georges Simenon (1903–1989), and Françoise Mallet-Joris (b.1930) have been translated into English. Translations of Belgian authors writing in Dutch include works by Johan Daisne (1912–78) and Hugo Claus (b.1929).

Eight Belgians have won the Nobel Prize in various fields. The poet and playwright Maurice Maeterlinck (1862–1949), whose symbolist dramas have been performed in many countries, received the prize for literature in 1911. Jules Bordet (1870–1961) received the physiology or medicine award in 1919 for his contributions to immunology. The same award went to Corneille J. F. Heymans (1892–1968) in 1938 and was shared by Albert Claude (1898–1983) and Christian de Duve (b.1917) in 1974. Russian-born Ilya Prigogine (b.1917) won the chemistry prize in 1977. Three Belgians have won the Nobel Peace Prize: Auguste Beernaert (1829–1912) in 1909, Henri Lafontaine (1854–1943) in 1913, and Father Dominique Pire (1910–69) in 1958.

Belgium’s chief of state since 1951 had been King Baudouin I (1930–93), the son of Leopold III (1901–83), who reigned from 1934 until his abdication in 1951.

## 49 DEPENDENCIES

Belgium has no territories or colonies.

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# BOSNIA AND HERZEGOVINA

Republic of Bosnia and Herzegovina  
*Republika Bosnia i Herzegovina*

**CAPITAL:** Sarajevo

**FLAG:** Introduced in early 1998, the flag consists of a yellow triangle on a royal blue field, with a row of white stars running diagonally along the triangle's edge. The yellow triangle represents the country's three main ethnic groups, while the royal blue field and stars symbolize a possible future inclusion in the Council of Europe.

**ANTHEM:** *Zemljo Tisucljetna (Thousand-Year-Old Land)*.

**MONETARY UNIT:** 1 convertible marka (KM) = 100 convertible pfenniga. 1KM = \$0.5617 (\$1 = KM1.78) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1–2 January; Labor Days, 1–2 May; 27 July; 25 November.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Bosnia and Herzegovina is located in southeastern Europe on the Balkan Peninsula, between Croatia and Serbia and Montenegro. Comparatively, Bosnia and Herzegovina is slightly smaller than the state of West Virginia, with a total area of 51,129 sq km (19,741 sq mi). Bosnia and Herzegovina shares boundaries with Croatia on the N, W, and S, Serbia and Montenegro on the E, and the Adriatic Sea on the S, with a total boundary length of 1,389 km (863 mi). Bosnia and Herzegovina's capital city, Sarajevo, is located near the center of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Bosnia and Herzegovina features hills, mountains, and valleys. Approximately 50% of the land is forested. The country has three main geographic zones: high plains and plateaus along the northern border with Croatia, low mountains in the center, and the higher Dinaric Alps which cover the rest of the country. Approximately 10% of the land in Bosnia and Herzegovina is arable. Bosnia and Herzegovina's natural resources include coal, iron, bauxite, manganese, timber, wood products, copper, chromium, lead, and zinc. Bosnia and Herzegovina is subject to frequent and destructive earthquakes.

## <sup>3</sup>CLIMATE

The climate features hot summers and cold winters. In higher elevations of the country, summers tend to be short and cold while winters tend to be long and severe. Along the coast, winters tend to be short and rainy. In July, the mean temperature is 22.5°C (72.5°F). January's mean temperature is 0°C (32°F). Annual rainfall averages roughly 62.5 cm (24.6 in).

## <sup>4</sup>FLORA AND FAUNA

The region's climate has given Bosnia and Herzegovina a wealth of diverse flora and fauna. Ferns, flowers, mosses, and common trees populate the landscape. Wild animals include deer, brown bears, rabbits, fox, and wild boars.

## <sup>5</sup>ENVIRONMENT

Metallurgical plants contribute to air pollution. Ongoing interethnic civil strife has seriously damaged the country's infrastructure and led to water shortages. Urban landfill sites are limited. As of 1995, the nation had 2.7 million ha of forest. Deforestation was not a significant problem. As of 2001, only 0.5% of the total land area is protected. Of 72 mammal species, 10 were considered threatened as of 2001, as were two species of birds and six species of freshwater fish. Endangered species include the slender-billed curlew, Danube salmon, and the field adder.

## <sup>6</sup>POPULATION

The population of Bosnia and Herzegovina in 2003 was estimated by the United Nations at 3,964,000, which placed it as number 120 in population among the 193 nations of the world. In that year approximately 8% of the population was over 65 years of age, with another 20% of the population under 15 years of age. There were 98 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 1.13%, with the projected population for the year 2015 at 4,284,000. The population density in 2002 was 67 per sq km (173 per sq mi).

It was estimated by the Population Reference Bureau that 43% of the population lived in urban areas in 2001. The capital city, Sarajevo, had a population of 522,000 in that year. According to the United Nations, the urban population growth rate for 2000–2005 was 2.3%.

Civil strife greatly reduced the population through war, genocide, and emigration. By 1996, there were an estimated two million Bosnian refugees and displaced persons. That year, there were an estimated 25,000 more deaths than births, creating a population decrease of 1%. By 2000 the population rose slightly to an estimated 3,591,618.

## 7 MIGRATION

Many people living in Bosnia and Herzegovina fled the war that followed independence. In other countries, their numbers were lumped together with other refugees from “Yugoslavia” or “former Yugoslavia.” As of 1999, more than 330,000 Bosnian refugees were still in need of a permanent home. Within Bosnia, as many as 836,000 people were still displaced from their homes (490,000 in the Federation; 346,000 in Republica Srpska). An estimated 110,000 Bosnian refugees and 30,000 displaced people returned to their homes from outside and within Bosnia in 1998. Only some 41,000 minority returns occurred in 1998, and some 3,000 in 1999. Conflict in the Federal Republic of Yugoslavia (FRY) and the Republica Srpska somewhat interfered with the return process.

Until the Kosovo crisis, Bosnia had been hosting some 30,000 refugees from Croatia, which led to the arrival of other groups from FRY, including 21,300 Muslims from the Sandzak region, 8,500 Kosovo Albanians, and 30,100 others from various areas of the FRY. As of 1999, many of these refugees had returned to their homeland, but some 15,000 were expected to remain in Bosnia. In 2000, the net migration rate was 27 migrants per 1,000 population. Worker remittances in that year totaled \$549 million, or 12.9 of GDP. The government views the emigration level as unsatisfactory.

## 8 ETHNIC GROUPS

In 1998, Serbs comprised 40% of the population, and 38% of the people were Bosniak—indigenous South Slavs primarily of the Islamic faith. Estimates report that Croats made up 22% of the populace; however, Croats themselves claim that they only make up 17%.

## 9 LANGUAGES

The native language of all the major ethnic groups is Serbo-Croatian, which belongs to the southern Slavic group. Croatian, Serbian, and Bosnian are all also spoken.

## 10 RELIGIONS

Historically, part of the Turkish Empire from the 15th century, the provinces of Bosnia and Herzegovina passed into the control of the Austro-Hungarian Empire in 1878. Following World War II, they were incorporated into the Yugoslavian federation.

Throughout its history, ethnicity and religion have served as flash points for conflict and changes in government. Ethnic groups tend to be closely linked with distinct religious affiliations. The Bosniaks are generally Muslim. As such, nearly 46% of the population is Muslim, predominantly, Sunni Muslims. The Serbs are generally Serbian Orthodox, a faith practiced by about 31% of the population. The Croats are primarily Roman Catholic, a faith practiced by about 14% of the population. There are small communities of Protestants, Baha'is, Romanis, Jews, and others.

## 11 TRANSPORTATION

The main railway is a 1-m gauge track which connects the Croatian port at Dubrovnik to Sarajevo and crosses the Sava before returning into Croatia at the northern border. The country's total railway trackage is 1,021 km (634 mi). In 2002, there were 21,846 km (13,575 mi) of highways, of which 14,020 km (8,712 mi) were paved.

Ports include those at Bosanska Gradiska, Bosanski Brod, Bosanski Samac, and Brcko. All are inland waterway ports on the Sava; however, none is fully operational. Large sections of the Sava are blocked by downed bridges, silt and debris. There is no merchant marine.

In 2001 there were 27 airports, 8 of which had paved runways. In 2001, 65,000 passengers were carried on scheduled flights.

## 12 HISTORY

### Origins

Bosnia and Herzegovina occupies the area between historical Croatia-Slavonia to the north, Dalmatia to the south, and Serbia and Montenegro to the east/southeast. Populated in ancient times by Thracians, Illyrians, Celts, with Greek colonies since 400 BC, the area was taken over by the Romans around 168 BC. However, it took the Romans some one hundred and fifty years to gain control of the entire area, which they called Dalmatia Province. The most difficult aspect of their occupation was getting past the coastal cities to build roads to rich mining sites in the interior, which still maintained its native, Illyrian character in resistance to pressures to Romanize. Eventually, many Romanized Illyrians became important leaders in the Roman armies and administration and some even became emperors. The division of the Roman Empire into the western and eastern halves in AD 395 found Bosnia as the frontier land of the western half, since the dividing line ran south from Sirmium on the Sava river along the Drina River to Skadar Lake by the Adriatic coast.

Slavic tribes have been raiding and settling in the Balkan area in large numbers since the 5th century AD, moving in slowly from their original lands east of the Carpathian Mountains. These early Slavic settlers were joined in the 7th century AD by Croatian and Serbian tribes invited by Byzantine Emperor Heraclius to help him fight the Avars. The area of Bosnia and Herzegovina became the meeting ground of Croats (western area) and Serbs (eastern area). As medieval Bulgarians, Croats, and Serbs developed their first states, Bosnia became a battleground among them and the Byzantine Empire. Christianization of the area was completed by the ninth century, when most of the Bosnian area came under the influence of Rome and Croats became Catholic, while most Serbs fell under the influence of the Byzantine Empire and became Eastern Orthodox.

The Bosnian area between the 9th and 11th centuries was essentially under Croatian influence when not conquered by Bulgarians, Serbs, or Byzantium. After Hungary and Croatia effected their royal union in AD 1102, Hungary took over Bosnia and the Dalmatian cities in 1136. Bosnia was then ruled by Croatian “Bans” under joint Hungarian-Croatian sovereignty. When the soldiers supplied by Ban Borić (r.1150–1167) to the Hungarian Army were defeated by Byzantium in 1167 at Zemun, Bosnia came under Byzantine rule. Hungary renewed its claim to Bosnia in 1185, during Ban Kulin's reign (1180–1204), which was marked by his independence from Hungary, partly due to the inaccessibility of its mountainous terrain.

Geography itself was an incentive to the local autonomy of Bosnia's individual regions of Podrina, Central Bosnia, Lower Bosnia, and Hum (today's Herzegovina). Each region had its own local hereditary nobility and customs, and was divided into districts (“župas”). The typical Bosnian family of this period had possession of its land without dependence on a feudal relationship to prince or king, as was the case in much of Europe. Bosnia was nominally Catholic under the jurisdiction of the Archbishop of Dubrovnik, who would consecrate a Bishop of Bosnia, usually from local Bosnian priests. These Bosnian Catholics used a Slavic liturgy and a modified Cyrillic alphabet called “Bosaniča” and had no knowledge of Latin. The region of Hum, on the other hand, was settled by Serbs in the interior, was mixed Orthodox and Catholic in the coastal area and mostly ruled by princes of the Serbian dynasty (Nemanja) until 1326.

The Catholic Church in Bosnia was isolated from the coastal areas and had developed its own Slavic liturgy and practices. These customs were suspect to the Latin hierarchy in both Hungary and the coastal cities. Ignorance of the language and customs of simple people and poor communications generated rumors and accusations of heresy against the Bosnian Church and



LOCATION: 44°17' N; 17°30' E. BOUNDARY LENGTHS: Total land boundary lengths, 1,459 kilometers (905 miles); Croatia, 932 kilometers (578 miles); Serbia and Montenegro, 527 kilometers (327 miles); total coastline, 20 kilometers (12 miles).

Ban Kulin, its supposed protector. Kulin called a Church Council in 1203 at Bolino Polje that declared its loyalty to the Pope and renounced errors in its practices. Reports of heresy in Bosnia persisted, possibly fanned by Hungary, and caused visits by Papal legates in the 1220s. By 1225 the Pope was calling on the Hungarians to launch a crusade against the Bosnia heretics. In

1233, the native Bishop of Bosnia was removed and a German Dominican appointed to replace him. In spite of Ban Ninoslav's (1233–1250) renunciation of the “heresy,” the Hungarians undertook a crusade in 1235–41, accompanied by Dominicans who were already erecting a cathedral in Vrhbosna (today's Sarajevo) in 1238. The Hungarians used the crusade to take



control of most of Bosnia, but had to retreat in 1241 because of the Tartars attack on Hungary. This allowed the Bosnians to regain their independence and in 1248 the Pope sent a neutral team (a Franciscan and a Bishop from the coastal town of Senj) to investigate the situation but no report is extant.

The Hungarians insisted that the Bosnian Church, which they suspected of practicing dualist, Manichaean beliefs tied to the Bogomils of Bulgaria and the French Cathars, be subjected to the Archbishop of Kalocsa in Hungary, who it was thought would intervene to end these heretical practices. In 1252, the Pope obliged. However, no Bishop was sent to Bosnia itself—only to Djakovo in Slavonia—so this act had no impact on the Bosnian Church. The crusades against the Bosnian Church caused a deep animosity towards the Hungarians that in the long run weakened Bosnian's determination to resist the invasion of the Islamic Turks. Thus the Bosnian Church that professed to be loyal to Catholicism, even though it continued in its practice of ascetic and rather primitive rituals by its Catholic monastic order, was pushed into separation from Rome.

Around 1288, Stjepan Kotroman became Ban of the Northern Bosnia area. In his quest to consolidate all of Bosnia under his rule, though, he was challenged by the Šubić family of Croatia, who had taken over Western Bosnia. Paul I Šubić then expanded his family's area of control, becoming Ban of Bosnia and later, in 1305, Ban of All Bosnia. However, the power of the Šubić family declined in subsequent years, and Kotroman's son Stjepan Kotromanić was able to take control of Central Bosnia by 1318, serving as a vassal of the Croatian Ban of Bosnia, Mladen Šubić. Kotromanić then allied himself with Charles Robert, King of Hungary, to defeat Mladen Šubić, helping Kotromanić to consolidate his control over Bosnia, the Neretva River Delta, and over Hum, which he took in 1326 but lost in 1350 to Dušan the Great of Serbia. In recognition of the role the Hungarians had played in his consolidation of power in Bosnia, Ban Kotromanić gave his daughter Elizabeth into marriage to King Louis of Hungary in 1353, the year of his death.

Raised in the Orthodox faith, Kotromanić was converted to Catholicism by Franciscan fathers, an order he had allowed into Bosnia in 1342. The Franciscans concentrated their efforts at conversion on the members of the Bosnian Church (or "Bogomili") and, by 1385, had built some 35 monasteries, four in Bosnia itself. Since most Franciscans were Italian and did not know the Slavic language, their effectiveness was not as great as it could have been and it was concentrated in the towns where numerous non-Bosnians had settled to ply their trades. During this period silver and other mines were opened which were administered by the townspeople of Dubrovnik. This influx of commerce helped in the development of prosperous towns in key locations and customs duties from increased trade enriched Bosnian nobles. A whole new class of native craftsmen developed in towns where foreign colonies also prospered and interacted with the native population, thus raising Bosnia's overall cultural level.

Kotromanić's heir was his nephew Tvrtko (r.1353–91) who would become the greatest ruler of Bosnia. Tvrtko could not command the loyalty of the nobles at first, however, and he soon lost the western part of Hum (1357) to Hungary as the dowry promised to King Louis of Hungary when he married Elizabeth, Kotromanić's daughter. But by 1363, Tvrtko had grown powerful enough to repel Hungarian attacks into Northern Bosnia. In 1366 Tvrtko fled to the Hungarian Court, having been unable to repress a revolt by his own nobles, and with Hungarian help regained his lands in 1367. In 1373 he obtained the upper Drina and Lim Rivers region. In 1377 he was crowned King of Bosnia and Serbia (his grandmother was a Nemanja) at the Mileševo monastery where Saint Sava, the founder of the Serbian Orthodox Church, was buried. Between 1378 and 1385, Tvrtko also gained control of the coastal territory of Trebinje and

Konavli near Dubrovnik, along with the port city of Kotor. In 1389, Tvrtko sent his troops to support the Serbian armies of Prince Lazar and Vuk Branković at the legendary Battle of Kosovo Polje. The battle itself was a draw but it exhausted the Serbs' capability to resist the further Turkish invasions. The Turks retreated, having suffered the death of Sultan Murad I, assassinated by a Serbian military leader, and Tvrtko's commander at Kosovo claimed victory. Having sent such a message to Italy, Tvrtko was hailed as a savior of Christendom. He had made a first step towards a possible unification of Bosnia and Serbian lands, but the Turks, and then his own death in 1391, made it impossible.

Bosnia did not disintegrate after Tvrtko's death, but was held together through a Council of the key nobles. The Council elected weak kings to maintain their own power and privileges. Tvrtko had no legitimate descendants so his cousin Dabiša (r.1391–95) was elected, followed by his widow Helen of Hum (r.1395–98), and then Stjepan Ostoja (r.1398–1404), opposed by Tvrtko II (r.1404–09), probably Tvrtko I's illegitimate son. Between 1404 and 1443, Bosnia witnessed civil wars between factions of the nobles taking opposite sides in the Hungarian wars of succession. Thus Stjepan Ostoja was returned to the throne from 1409 to 1418, followed by Stjepan Ostojić (r.1418–21), then Tvrtko II again (r.1421–43). During this period the Turks participated in Bosnian affairs as paid mercenaries, through their own raids, and by taking sides in the struggles for the Bosnian throne. The Turks supported Tvrtko II, who managed to rule for over twenty years by recognizing the sovereignty of both the Hungarians and Turks, and playing one against the other. After the Turks' conquest of Serbia in 1439 made them direct neighbors of Bosnia along the Drina River, Turkish raids into Bosnia increased. The Ottomans assumed a key role in internal Bosnian affairs and became the mediator for Bosnian nobles' quarrels. The Bosnian nobles and their Council clung to their opposition to a centralized royal authority, even though it could have mounted a stronger defense against Hungarians and Turks. Thus Bosnia grew ever weaker with the skillful maneuvering of the Turks. Twenty years after Tvrtko II's death, in 1443, the Turks conquered an exhausted Bosnia with a surprise campaign.

Herzegovina (named after the ruler of Hum, Stefan Vukčić who called himself Herzeg/Duke) was occupied by the Turks gradually by 1482, and the two regions were subject to the Ottoman Empire for the next 400 years until the 1878 takeover by Austria.

### Under Ottoman Rule

The mass conversion of Bosnian Christians to Islam, a rather unique phenomenon in European history, is explained by two schools of thought. The traditional view recognizes the existence of a strong "Bogomil" heresy of dualism and social protest. These Bosnian Christians, having been persecuted by both Catholic and Orthodox Churches and rulers, welcomed the Ottomans and easily converted in order to preserve their land holdings. In doing so, they became trusted Ottoman soldiers and administrators. The other school of thought denies the existence of a strong and influential "Bogomil" heresy, but defines the Bosnian Christian church as a nativistic, anti-Hungarian, loosely organized religion with a Catholic theological background and simple, peasant-based practices supported by its monastic order. The rulers/kings of Bosnia were Catholic (with the single exception of Ostoja) and very tolerant of the Orthodox and so-called Bosnian religions. However, these religious organizations had very few priests and monks, and therefore were not very strong. The Bosnian Church was practically eliminated in 1459 through conversions to official Catholicism, or the forced exile of its leadership. Thus, by the time of the Turkish conquest, the Bosnian Church had ceased to exist and the allure of privileged status under the Ottomans was too strong for many to resist.

Bosnia and Herzegovina was ruled by a “Pasha” or “Vizier” appointed by the Sultan and assisted by a Chancellor, supreme justice, and treasurer, each heading his own bureaucracy, both central and spread into eight districts (“Sandžaks”). Justice was administered by a “Khadi” who was both prosecutor and judge using the Koran for legal guidance, thus favoring Muslim subjects. Catholics, who were outside the established Orthodox and Jewish communities represented by the Greek Orthodox Patriarch and Chief Rabbi in Constantinople, were particularly exposed to arbitrary persecutions. In spite of all this, communities of followers of the Orthodox (Serbian) Church and Catholic (Croatian) Church survived into the late 19th century when in 1878 Austria obtained the authority to occupy Bosnia and Herzegovina, putting an end to four centuries of Ottoman rule. The Ottomans introduced in Bosnia and Herzegovina their administration, property concepts, and customs. The adherents to Islam were the ruling class, regardless of their national or ethnic backgrounds. Christian peasants practically became serfs to Muslim landlords while in the towns civil and military administrators had control over an increasingly Muslim population. Large numbers of Bosnians fled the Turkish takeover and settled in Venetian-occupied coastal areas where many continued the fight against the Turks as “Uskoki” raiders. Others emigrated north or west into Slavonia and Croatia and were organized as lifetime soldiers along military regions (“Krajina”) in exchange for freemen status, land, and other privileges. On the Bosnian side, Christians were not required to enter military service, but the so-called “blood tax” took a heavy toll by turning boys forcibly into Muslim “Janissaries”—professional soldiers converted to Islam who would generally forget their origins and become oppressors of the Sultan’s subjects. Girls were sent to harems. Taxation became more and more oppressive, leading to revolts by the Christian peasantry that elicited bloody repressions.

#### Under Austro-Hungarian Rule

Historically both Croats and Serbs have competed for control over Bosnia. The Croats, who had included Bosnia in their medieval kingdom, could not effectively continue their rule once joined with the more powerful Hungarians in their royal union. The Serbs, on the other hand, were assisted by Hungary in their expansion at the expense of the Byzantine Empire. Later, they also received Hungarian support in their resistance to Turkish inroads and therefore could not invest their energies in Bosnia, in their view a “Hungarian” territory. Thus Bosnia was able to assert its own autonomy and individuality, but did not evolve into a separate nation. With the Austrian occupation, however, a new period began marked by a search for a Bosnian identity, supported by Austria who had an interest in countering the national unification ambitions of both Croats and Serbs.

The population of Bosnia and Herzegovina was divided into three major religious-ethnic groups: Croatian Catholics, Serbian Orthodox, and Bosnian Muslims. With the disappearance of the Bosnian Church just before the Ottoman occupation in 1463, most Bosnians were Croatian and Catholic, with a Serbian Orthodox population concentrated in Eastern Herzegovina and along the Drina River frontier with Serbia. The Serbs were mostly peasants, many of whom became serfs to Muslim landlords. Their priests, who were generally poorly educated, lived as peasants among them. Serbian urban dwellers, insignificant in number at first, grew to be an important factor by the late Ottoman period and developed their own churches and schools in the 19th century. Crafts and commerce were the main occupations of the new Serbian middle class.

Croats were also mostly peasants and, like the Serbs, became serfs to Muslim landlords. Members of the Franciscan order lived among the peasants, even though they also had built several monasteries in urban centers. There was almost no Croat middle

class at the start of the Austrian period and the Catholic clergy was generally its advocate.

The Muslim group consisted of three social subgroups: the elites, the peasants, and urban lower classes. Most Muslims were peasants, but they were free peasants with a standard of living not better than that of the Christian serf-peasants. The Muslim “Hodžas” (priests) lived among the peasants as peasants themselves. The second subgroup consisted of merchants, craftsmen and artisans and were mostly concentrated in towns. Together with the urban lower classes, these two groups made up the Muslim majorities in most towns by 1878. The members of the Muslim elites were mostly religious functionaries, landowners, and commercial entrepreneurs, all favored by Islamic laws and traditions. Following the 1878 occupation, Austria recognized the right of Turkish functionaries to keep their posts, the right of Muslims to be in communication with their religious leaders in the Ottoman Empire, the right of Turkish currency to circulate in Bosnia, and also promised to respect all traditions and customs of the Bosnian Muslims. The Austrian approach to the administration of Bosnia and Herzegovina was close to the British colonial model that retained the existing elites and cultural individuality while gradually introducing Western administrative and education models.

Bosnia and Herzegovina was divided by the Turks into six administrative regions that were confirmed by Austria: Sarajevo, Travnik, Bihac, Donja Tuzla, Banja Luka, and Mostar (Herzegovina). Each was headed by a regional supervisor. Participation in cultural and religious organizations was encouraged, while engaging in politics was prohibited. The Austrians promoted a policy of equality between Christians and Muslims, banned organizations of an open political purpose, and prohibited the use of national names (Serb and Croat) for public institutions. At the same time, educational institutions designed to promote loyalty to Bosnia (and Austria) as such were encouraged. Censorship and other means were used to insulate Bosnians from the influence of their Croatian and Serbian conationals across the borders. By terminating the earlier Muslim secular/religious unity, many administrative and judicial functions were no longer carried out by the Muslim elites, but were instead presided over by the Austrian bureaucracy and judiciary, though a separate Muslim Judiciary was continued. The Muslim landowners lost some privileges but were able to retain their land and the system of serfdom was allowed to continue.

A widespread and important institution supporting Muslim cultural life was the “Vakif” (Vakuf in Serbian/Croatian). The Vakuf was a revenue-producing property set up and administered as a family foundation for the support of specified causes. Once set up, a Vakuf could not be sold, bequeathed, or divided and was exempt from normal taxes. In 1878 it was estimated that one-fourth to one-third of usable land in Bosnia was tied to Vakufs. The administration of Vakufs was lax and open to much manipulation and abuse. The Austrian administration was able to establish effective controls over the Vakuf system by 1894 through a centralized commission and the involvement of prominent Muslims in the administration of Vakuf revenues in support of Islamic institutions.

The continuation of serfdom by the Austrian authorities was a deep disappointment for the peasants that were eagerly expecting emancipation. Abuses led to peasant revolts until the Austrians introduced cash payments of the tithe (one tenth of harvest due to the state) and the appraising of harvest value as basis for payment in kind (one third) to the landlord. A land-registry system was instituted in 1884, and landowners that could not prove legal ownership lost title to some properties. This policy generated wide discontent among Muslim landowners. Another cause of frequent disorders were cases of religious conversions. Under Muslim law, a Muslim convert to another faith was to be executed (this penalty was later eased to banishment). The

Austrian policy of confessional equality required a freedom of religious conversion without any penalty and a conversion statute was issued in 1891.

The general aim of the Austrian administration was to guide the development of a coequal confessional society that would focus its efforts on cultural and economic progress without political and national assertiveness. Benjamin von Kallay, the first Austrian Chief Administrator for Bosnia and Herzegovina wanted to avoid anything that could lead to the creation of a separate Muslim nation in Bosnia. On the other hand, he was determined to insulate Bosnians from external developments in the South Slavic areas. Such a position was unrealistic, however, since all of the main groups—Serbs, Croats, and Muslims—identified themselves with their own national/religious groups in the neighboring areas and had developed intense cultural/political relationships with them. Serbs looked at Serbia's successes and hoped for unification with their motherland. Croats followed closely the Croatian-Hungarian tensions and hoped likewise for their unification. The Muslim community, meanwhile, struggled for its own cultural/religious autonomy within a Bosnia that still recognized the Ottoman Sultan's sovereignty and looked to him for assistance.

The unilateral annexation of Bosnia and Herzegovina to Austria in 1908 exacerbated Austria's relations with Serbia (and almost caused a war) and with the Hungarian half of the Hapsburg Crown that opposed the enlargement of the Slavic population of Austria-Hungary. Serbia's victories in the Balkan wars added fuel to the "Yugoslav" movement among the South Slavs of Austria, including Bosnia and Herzegovina. Here the Austrian administration countered the growing "Yugoslav" assertiveness with a "divide and rule" initiative of developing a separate "Bosnian" national consciousness which they hoped would tie together Serbs, Croats, and Muslims. All nationalist movements use elements of history to develop their own mythology to unite their members. Thus, the medieval Bosnian kingdom was the basis for development of a Bosnian national consciousness. It was opposed by most Serbs and Croats, who awaited unification with Serbia or Croatia, but gave some sense of security to the more isolated Muslim Bosnian community. Already by the beginning of the 20th century, separate ethnic organizations and related political associations had to be allowed. The 1908 annexation led to the promulgation of a constitution, legal recognition of political parties, and a Bosnian Parliament in 1910. The internal political liberalization then allowed the Austrian administration to concentrate on the repression of student radicals, internal and external terrorists, and other such perceived threats to their rule.

The Muslim community was split internally, with a leadership dominated by landowners and weakened by the forced emigration to Turkey of its top leaders. It finally came together in 1906 and formed the Muslim National Organization ("Muslimanska Narodna Organizacija") as its political party, with the blessing of its émigré leaders in Istanbul. Intense negotiations with the Austrian administration produced agreements on religious and cultural autonomy as well as landowners' rights. The latter were a preeminent concern, and landowners were able to preserve their ownership rights based on Ottoman law and the peasants' payments of compulsory dues. The religious autonomy of the Muslim faith was assured by having the nominees for the top offices confirmed by the Sultan's religious head upon request by the Austrian Embassy in Istanbul. The same process was also used in matters of religious dogma and law.

Cultural autonomy for Muslims was affirmed through the streamlining of the preexisting "vakuf" system into local, regional, and central assemblies responsible for the operation of the "vakufs" and the related educational system. Overall, the Muslims of Bosnia had achieved their objectives: preserving their

large landholdings with peasants still in a quasi-serfdom condition; assuring their cultural autonomy; and retaining access to the Sultan, head of a foreign country, in matters of their religious hierarchies. Politically, the Muslim National Organization participated in the first parliament as part of the majority supportive of the Austrian government.

Serbs and Croats had also formed political organizations, the nature of which reflected Bosnia's peculiar ethnic and socio-political conditions. The Serbian National Organization ("Srpska Narodna Organizacija") was founded in 1907 as a coalition of three factions. The Croatian National Community ("Hrvatska Narodna Zajednica") was formed in 1908 by liberal Croat intellectuals, followed in 1910 by the Croatian Catholic Association ("Hrvatska Katolička Udruga"). A cross-ethnic Social Democratic party, formed in 1909, failed to win any seats in the Parliament. A Muslim Progressive Party, formed in 1908, found hardly any support even after changing its name to the Muslim Independent Party. The Muslims were more conservative and were opposed to the agrarian reform demanded by the Serbs and Croats, who each continued to favor an association or unification with their respective "Mother Country." Croats asserted the Croatian character of Bosnia based on its Croatian past, while Serbs just as adamantly claimed its Serbian character and supported Serbia's "Greater Serbia" policies.

Given the demographics of Bosnia and Herzegovina (1910 census: Serbian Orthodox, 43%; Croat Catholics, 23%; Muslims, 32%) each side needed the support of the Muslims who, though pressured to declare themselves Serbs or Croats, very seldom would do so and would rather keep their own separate identity. Up until the Balkan wars, Muslims and Serbs would support one another hoping for some kind of political autonomy. Croats advocated unification with Croatia and a trialist reorganization of the Hapsburg Monarchy, giving the united South Slavs a coequal status with Austrians and Hungarians. Any cooperation by the Muslims was predicated on support for the continuation of serfdom. This stance prevented cooperation with the Croatian Catholic Association, which insisted on agrarian reform and the termination of serfdom.

With the Serbian victories and Ottoman defeat in the Balkan wars, Serbs became more assertive and Croats more willing to cooperate with them in the growing enthusiasm generated by the idea of "Yugoslavism." A parliamentary majority of Serbs and Croats could have effected the liberation of the peasants in 1913 but the Hungarians opposed it. The assassination of Archduke Ferdinand on 28 June 1914, and World War I, combined to make the issue moot when the Parliament was adjourned. The assassination of the Archduke was apparently the work of members of the "Young Bosnia" students association supported (unofficially) by Serbia through its extremist conspiratorial associations, the "Black Hand" and the "Serbian National Defense." The Austrian ultimatum to Serbia was extremely harsh but Serbia met all the conditions that did not violate its sovereignty. Austria nevertheless declared war and immediately attacked Serbia. The Serbian community of Bosnia and Herzegovina was subjected to a regime of terror and indiscriminate executions by the Austrian authorities. Serbian leaders were subjected to trials, court martial proceedings, and infamous concentrations camps where internees died of epidemics and starvation.

#### First (Royal) Yugoslavia

Throughout World War I, Bosnians fought in Austrian units, particularly on the Italian front until Austria's surrender. The Bosnian National Council decided to unite with the Kingdom of Serbia, as Vojvodina did and the Montenegrin assembly did on 24 November 1918. On 27 November 1918 the delegation from the Zagreb-based National Council of the Slovenes, Croats, and Serbs also requested unification with Serbia of the Slovene,

Croat, and Serbian lands of Austria-Hungary. Following the Declaration of Union on 1 December 1918, a provisional government was set made up of representatives of Serbia and the National Council, with other groups added later. A provisional Assembly was also convened consisting of members of the Serbian Parliament, nominees from the National Council and other regional Assemblies such as Bosnia and Herzegovina and Vojvodina. In November 1920 a Constituent Assembly was elected and functioned as both the legislature and constitutional convention. Bosnian Serbs supported the Serbian Agrarian Party, while two Muslim parties, the National Muslim Organization from Bosnia and Herzegovina and the Džemijet Party of the Kosovo and Macedonia Muslims had seats in the assembly. Croats, on the other hand, joined the mainstream parties of Croatia.

By joining the Kingdom of Serbs, Croats, and Slovenes in 1918, Bosnia and Herzegovina ceased to exist as a distinct political/historical unit, particularly since the heads of local governments were appointed by and directly accountable to the central government in Belgrade. After ten years of a tumultuous parliamentary history culminating in the assassination of Croatian deputies, King Alexander dissolved parliament and disbanded all political parties, establishing a royal dictatorship in 1929. He then reorganized the country into a “Yugoslavia” made up of nine administrative regions (“Banovine”) named after rivers. What once was Bosnia and Herzegovina was split among four of the new units (Vrbaska, Drinska, Primorska, and Zetska). Serb and Croat peasants were finally freed from their feudal obligations to Muslim landlords through the agrarian reforms decreed in 1919 and slowly implemented over the next twenty years. Except for Bosnia and Herzegovina and Dalmatia, land held by ex-enemies (Austrians, Hungarians, Turks) were expropriated without compensation and redistributed to the peasants—1.75 million of them plus 2.8 million dependents. As a result, the average size of agricultural holdings fell to 15 acres, causing inefficiencies and very low yields per acre. Peasants were forced to borrow even to buy food and necessities. They fell deeply in debt, both to local shopkeepers who charged 100–200% interest and to banks that charged exorbitant rates up to 50%. In comparison, peasant cooperatives in Slovenia used single digit interest rates.

Politically, the Muslim Organization, as a small party, allied itself mostly with the Slovene People’s Party and either the Serbian Democratic or Radical parties in order to participate in a series of governments before the 1929 royal dictatorship was implemented. The Muslim Organization’s main goals were to obtain the best possible compensation for land expropriated from Bosnia’s Muslim landowners and to preserve the Muslims’ cultural identity. In 1932, Muslim leaders joined the Croats, Slovenes, and some Liberal Serbs in issuing the Zagreb manifesto calling for an end to the King’s dictatorship and for democratization and regional autonomies. For this the centralist regime interned and imprisoned several of the leaders and instituted wider repressions. Following the assassination of King Alexander in 1934 in Marseilles, France, the Croat Peasants Party was joined by the Muslims, Serbian Agrarians, and Serbian Democrats in opposition to the Centralists, winning 38% of the votes in spite of the Government’s intimidating tactics. With the opposition refusing to take part in the Parliament a new government was formed by the Serbian Radicals with the inclusion of the Muslims and the Slovene People’s Party.

This new coalition government lasted until 1939, but was never able to resolve the “Croatian” autonomy issue. In addition, while under the leadership of Milan Stojadinović, Yugoslavia’s foreign policy moved the country closer to Italy and Germany. Meanwhile a growing consensus had developed that the “Croatian” question had to be solved, particularly in view of the aggressive ambitions of Yugoslavia’s neighbors. Thus, the Regent

Prince Paul and Dr. Vladimir Maček, leader of the Croatian Peasant Party, worked with the Minister of Social Policy, Dragiša Cvetković, on an agreement establishing a Croatian “Banovina” made up of the historical regions of Croatia-Slavonia and Dalmatia along with parts of Vojvodina, Srem, and Bosnia. The president of the senate, Monsignor Anton Korošec (also leader of the Slovene People’s Party), engineered the resignation of five ministers, two Slovenes, two Muslim, and Dragiša Cvetković. Regent Paul then called on Cvetković to form a new government. Dr. Maček became Vice-Premier and Ivan Subašić was named “Ban” of the autonomous Croatian “Banovina,” which was given its own “Sabor” (Parliament). The Croatian parties considered this development as a positive first phase towards their goal of an independent Croatia that would incorporate all of Bosnia and Herzegovina. The Serbian centralists, on the other hand, saw this phase as a threat to their own designs of incorporating Bosnia and Herzegovina (and Serb populated areas of Croatia) into a “Greater Serbia” unit of Yugoslavia. Thus, on the eve of World War II, the stage was set for a direct confrontation between the independent minded Croatians and centralistic Serbs. The Muslims of Bosnia were caught in their crossfire.

## World War II

Germany, Italy, and their allies Hungary, Romania, and Bulgaria, attacked Yugoslavia on 6 April 1941 and divided the country among themselves. The Croatian terrorist Ustaša organization collaborated with the aggressors and was allowed to proclaim an Independent State of Croatia on 10 April 1941. This new state incorporated the old Croatian “Banovina” in addition to all of Bosnia and Herzegovina. Of its total population of 6.3 million, one third were Serbian and 750,000 were Muslim. Once entrenched in power, the Ustaša troops began implementing their plan for “cleansing” their Greater Croatia of the Serbian population by the use of terror, mass deportations, and genocidal massacres later condemned by the Nürnberg Court.

The Serbian population responded in kind with its Cetnik formations and by joining the Partisan resistance movement led by Josip Broz-Tito, head of the Yugoslav Communist Party. Bosnia and Herzegovina suffered terrible losses in several German-led offensives against Bosnian resistance, and in the internecine civil war among Communist dominated Partisans, nationalist Cetniks (mostly Serbs) and Croatian Ustaše and home guard units. The Muslim population in particular was caught in the middle between the Ustaše and the Serbian Cetniks. The Ustaše considered the Muslims of Croatian origin and expected them to collaborate with the Ustaša regime. The Serbian Cetniks, on the other hand, viewed most Muslims as the hated Turks and Ustaša collaborators, and therefore engaged in slaughters of Muslims, particularly in Eastern Bosnia around the cities of Foča and Goražde.

The political programs of the Cetniks and Partisans were a reflection of the old centralist (Serbian) hegemony and the Federalist positions of the prewar opposition parties. Thus the Partisan resistance, though aiming at a revolutionary power grab, offered a federated Yugoslavia made up of individual republics for each national group—Serbs, Croats, Slovenes, newly recognized Macedonians and Montenegrins. To avoid a battle over a Serbian-Croatian border issue, Bosnia and Herzegovina was resurrected as a buffer area between Serbia and Croatia. It would also allow (again) for the cultural autonomy of the Muslim population. The Allied and Soviet support the Partisans received enabled them to prevail, and they organized Socialist Yugoslavia as a Federative People’s Republic with Bosnia and Herzegovina as one of the constituent republics approximately within the boundaries of the former Austrian province.

When Soviet armies entered Yugoslavia from Romania and Bulgaria in the fall of 1944—Marshal Tito with them—military

units and civilians that had opposed the partisans had no choice but retreat to Austria or Italy to save themselves. Among them were the “Cetnik” units of Draža Mihajlovič, and “Home guards” from Serbia, Croatia, and Slovenia that had been under German control but were pro-Allies in their convictions and hopes. Also in retreat were the units of the Croatian “Ustaša” that had collaborated with Italy and Germany in order to achieve (and control) an “independent” greater Croatia, and in the process had committed terrible and large-scale massacres of Serbs, Jews, Gypsies, and others who opposed them. Of course, Serbs and Partisans counteracted and a fratricidal civil war raged over Yugoslavia, pitting Croats against Serbs, Communists against Nationalists. These skirmishes not only wasted countless lives, they used up the energy and property that could have been used instead against the occupiers. After the end of the war, the Communist led forces took control of all of Yugoslavia and instituted a violent dictatorship that committed systematic crimes and human rights violations on an unexpectedly large scale. Thousands upon thousands of their former opponents were returned from Austria by British military authorities only to be tortured and massacred by Partisan executioners.

### Second (Communist) Yugoslavia

Such was the background for the formation of the second Yugoslavia as a Federative People’s Republic of five nations—Slovenes, Croats, Serbs, Macedonians, and Montenegrins—and Bosnia and Herzegovina as a buffer area with its mix of Serb, Muslim, and Croat populations. The problem of large Hungarian and Muslim Albanian populations in Serbia was solved by creating the autonomous region of Vojvodina (Hungarian minority) and Kosovo (Muslim Albanian majority) to assure their political and cultural development. Tito attempted a balancing act to satisfy most of the nationality issues that were carried over unresolved from the first Yugoslavia, but failed to satisfy anyone.

Compared to pre-1941 Yugoslavia where Serbs enjoyed their controlling role, the numerically stronger Serbs in the new Yugoslavia had “lost” the Macedonian area they considered “Southern Serbia”; they had lost the opportunity to incorporate Montenegro into Serbia; they had lost direct control over the Hungarian minority in Vojvodina and Muslim Albanians of Kosovo (viewed as the cradle of the Serbian nation since the Middle Ages); they could not longer incorporate into Serbia the large Serbian populated areas of Bosnia; and they had not obtained an autonomous region for the large minority Serbian population within the Croatian Republic. The Croats, while gaining back from Hungary the Medjumurje area and from Italy the cities of Rijeka (Fiume), Zadar (Zara), some Dalmatian islands, and the Istrian Peninsula, had “lost” the Srem area to Serbia and Bosnia and Herzegovina, which had been part of the World War II “independent” Croatian state under the Ustaša leadership. In addition, the Croats were confronted with a deeply resentful Serbian minority that became ever more pervasive in public administrative and security positions. The Slovenes had obtained back from Hungary the Prekmurje enclave and from Italy most of the Slovenian lands taken over by Italy following World War I (Julian Region and Northern Istria). Italy retained control over the “Venetian Slovenia” area, the Gorizia area, and the port city of Trieste. (Trieste was initially part of the UN protected “Free Territory of Trieste,” split in 1954 between Italy and Yugoslavia, with Trieste itself given to Italy.) Nor were the Slovenian claims to the southern Carinthia area of Austria satisfied. The “loss” of Trieste was a bitter pill for the Slovenes and many blamed it on the fact that Tito’s Yugoslavia was, initially, Stalin’s advance threat to Western Europe, thus making Western Europe and the United States more supportive of Italy.

The official position of the Marxist Yugoslav regime was that national rivalries and conflicting interests would gradually diminish through their sublimation into a new Socialist order.

Without capitalism, nationalism was supposed to wither away. Therefore, in the name of their “unity and brotherhood” motto, any “nationalistic” expression of concern was prohibited and repressed by the dictatorial and centralized regime of the “League of Yugoslav Communists” acting through the “Socialist Alliance” as its mass front organization. As a constituent Republic of the Federal Yugoslavia, Bosnia and Herzegovina shared in the history of the second experiment in “Yugoslavism.”

After a short postwar “coalition” government period, the elections of 11 November 1945, boycotted by the non-communist “coalition” parties, gave the Communist-led People’s Front 90% of the vote. A Constituent Assembly met on November 29 and abolished the monarchy, establishing the Federative People’s Republic of Yugoslavia. In January 1946, a new constitution was adopted, based on the 1936 Soviet constitution. The Stalin-engineered expulsion of Yugoslavia from the Soviet-dominated Cominform Group in 1948 was actually a blessing for Yugoslavia after its leadership was able to survive Stalin’s pressures. Survival had to be justified, both practically and in theory, by developing a “road to Socialism” based on Yugoslavia’s own circumstances. This new “road map” evolved rather quickly in response to some of Stalin’s accusations and Yugoslavia’s need to perform a balancing act between the NATO alliance and the Soviet bloc. Having taken over all power after World War II, the Communist dictatorship under Tito pushed the nationalization of the economy through a policy of forced industrialization, to be supported by the collectivization of agriculture.

The agricultural reform of 1945–46 (limited private ownership of a maximum of 35 hectares [85 acres] and a limited free market after the initial forced delivery of quotas to the state at very low prices) had to be abandoned because of the strong passive, but at times active, resistance by the peasants. The actual collectivization efforts were initiated in 1949 using welfare benefits and lower taxes as incentives along with direct coercion. But collectivization had to be abandoned by 1958 simply because its inefficiency and low productivity could not support the concentrated effort of industrial development.

By the 1950s, Yugoslavia had initiated the development of its internal trademark: self-management of enterprises through workers councils and local decision-making as the road to Marx’s “withering away of the state.” Following the failure of the first five-year plan (1947–51), the second five-year plan (1957–61) was completed in four years by relying on the well-established self-management system. Economic targets were set from the local to the republic level and then coordinated by a Federal Planning Institute to meet an overall national economic strategy. This system supported a period of very rapid industrial growth in the 1950s. But a high consumption rate encouraged a volume of imports, largely financed by foreign loans, far in excess of exports. In addition, inefficient and low-productivity industries were kept in place through public subsidies, cheap credit, and other artificial protective measures that led to a serious crisis by 1961.

Reforms were necessary and, by 1965, “market socialism” was introduced with laws that abolished most price controls and halved import duties while withdrawing export subsidies. After necessary amounts were left with the earning enterprise, the rest of the earned foreign currencies were deposited with the national bank and used by the state, other enterprises, or were used to assist less developed areas. Councils were given more decision-making power on investing their earnings. They also tended to vote for higher salaries in order to meet steep increases in the cost of living. Unemployment grew rapidly even though “political factories” were still subsidized. The government thus relaxed its restrictions to allow labor migration particularly to West Germany where workers were needed for its thriving economy. Foreign investment was encouraged up to 49% in joint

enterprises, and barriers to the movement of people and exchange of ideas were largely removed. The role of trade unions continued to be one of transmission of instructions from government to workers, allocation of perks along with the education/training of workers, monitoring legislation, and overall protection of the self-management system. Strikes were legally neither allowed nor forbidden but—until the 1958 miners strike in Trbovlje, Slovenia—were not publicly acknowledged and were suppressed. After 1958, strikes were tolerated as an indication of problems to be resolved. Unions, however, did not initiate strikes but were expected to convince workers to go back to work.

Having survived its expulsion from the Cominform in 1948 and Stalin's attempts to take control, Yugoslavia began to develop a foreign policy independent of the Soviet Union. By mid-1949 Yugoslavia ceased its support of the Greek Communists in their civil war against the then Royalist government of Greece. In October 1949, Yugoslavia was elected to one of the nonpermanent seats on the UN Security Council and openly condemned North Korea's aggression toward South Korea. Following the "rapprochement" opening with the Soviet Union initiated by Nikita Khrushchev and his 1956 denunciation of Stalin, Tito intensified his work on developing the movement of nonaligned "third world" nations. This would become Yugoslavia's external trademark, in cooperation with Nehru of India, Nasser of Egypt, and others. With the September 1961 Belgrade summit conference of nonaligned nations, Tito became the recognized leader of the movement. The nonaligned position served Tito's Yugoslavia well by allowing Tito to draw on economic and political support from the Western powers while neutralizing any aggressiveness from the Soviet bloc. While Tito had acquiesced, reluctantly, to the 1956 Soviet invasion of Hungary for fear of chaos and its liberalizing impact on Yugoslavia, he condemned the Soviet invasion of Dubček's Czechoslovakia in 1968, as did Romania's Ceausescu, both fearing their countries might be the next in line for "corrective" action by the Red Army and the Warsaw Pact. Just before his death on 4 May 1980, Tito also condemned the Soviet invasion of Afghanistan. Yugoslavia actively participated in the 1975 Helsinki Conference and agreements and the first 1977–78 review conference that took place in Belgrade, even though Yugoslavia's one-party communist regime perpetrated and condoned numerous human rights violations. Overall, in the 1970s and 1980s, Yugoslavia maintained fairly good relations with its neighboring states by playing down or solving pending disputes—such as the Trieste issue with Italy in 1975—and by developing cooperative projects and increased trade.

Ravaged by the war, occupation, resistance, and civil war losses and preoccupied with carrying out the elimination of all actual and potential opposition, the Communist government faced the double task of building its Socialist economy while rebuilding the country. As an integral part of the Yugoslav federation, Bosnia and Herzegovina was, naturally, impacted by Yugoslavia's internal and external political developments. The main problems facing communist Yugoslavia and Bosnia and Herzegovina were essentially the same as the unresolved ones under Royalist Yugoslavia. As the "Royal Yugoslavism" had failed in its assimilative efforts, so did the "Socialist Yugoslavism" fail to overcome the forces of nationalism. Bosnia and Herzegovina differs from the other republics because its area has been the meeting ground of Serbian and Croatian nationalist claims, with the Muslims as a third party, pulled to both sides. Centuries of coexistence of the three major national groups had made Bosnia and Herzegovina into a territorial maze where no boundaries could be drawn to clearly separate Serbs, Croats, and Muslims without resorting to violence and forced movements of people. The inability to negotiate a peaceful partition of Bosnia and Herzegovina between Serbia and Croatia doomed the first interwar Yugoslavia to failure. The Socialist experiment with

"Yugoslavism" in post-World War II Yugoslavia was particularly relevant to the situation in Bosnia and Herzegovina where the increasing incidence of intermarriage, particularly between Serbs and Croats, caused the introduction of the "Yugoslav" category with the 1961 census. By 1981 the "Yugoslav" category was selected by 1.2 million citizens, (5.4% of the total population), a large increase over the 273,077 number in 1971. Muslims, not impacted much by intermarriage, have also been recognized since 1971 as a separate "people" and numbered two million in 1981 in Yugoslavia. The 1991 census showed the population of Bosnia and Herzegovina consisting mainly of Muslims (43.7%), Serbs (31.4%), and Croats (17.3%) with 6% "Yugoslavs" out of a total population of 4,364,000.

Bosnia as a political unit has existed since at least 1150. Headed by a "Ban" in the Croatian tradition, Bosnia lasted for over 300 years with an increasing degree of independence from Hungary through King Tvrtko I and his successors until the occupation by the Ottoman Turks in 1463 (1482 for Herzegovina). Bosnia and Herzegovina was then ruled by the Turks for 415 years until 1878, and by Austria-Hungary for forty years until 1918. Bosnia and Herzegovina ceased to be a separate political unit only for the 27 years of the first Yugoslavia (1918–1945) and became again a separate unit for 47 years as one of the republics of the Federal Socialist Republic of Yugoslavia until 1992. Yet, in spite of an 800-year history of common development, the Serbs, Croats, and Muslims of Bosnia and Herzegovina never assimilated into a single nation. Bosnia was initially settled by Croats who became Catholic and then by Orthodox Serbs escaping from the Turks. Under the Turks, large numbers converted to Islam and, in spite of a common language, their religious and cultural differences kept the Serbs, Croats, and Muslims apart through history so that Bosnia and Herzegovina has been more a geographic-political notion than a unified nation.

Consequently, while the resurgent nationalism was galvanizing Croatia into an intensifying confrontation with Serbia, the Bosnian leadership had to keep an internal balance by joining one or the other side depending on its own interests. Bosnia and Herzegovina was torn between the two opposing "liberal" and "conservative/centralist" coalitions. In terms of widening civil and political liberties, Bosnia and Herzegovina usually supported in most cases the liberal group. Its own economic needs as a less developed area, however, pulled it into the conservative coalition with Serbia in order to keep the source of development funds flowing to itself, Montenegro, Macedonia, and Serbia (for the Kosovo region). Also, the "Yugoslav" framework was for Bosnia and Herzegovina an assurance against its possible, and very likely bloody, partitioning between Serbia and Croatia.

The liberal group, centered in Slovenia and Croatia, grew stronger on the basis of the deepening resentment against forced subsidizing of less-developed areas of the federation and buildup of the Yugoslav army. Finally, the increased political and economic autonomy enjoyed by the Republics after the 1974 Constitution and particularly following Tito's death in 1980, assisted in turning Tito's motto of "unity and brotherhood" into "freedom and democracy" to be achieved through either a confederated rearrangement of Yugoslavia or by complete independence of the Republics. The debate over the reforms of the 1960s had led to a closer scrutiny—not only of the economic system, but also of the decision-making process at the republic and federal levels, particularly the investment of funds to less developed areas that Slovenia and Croatia felt were very poorly managed, if not squandered. Other issues of direct impact on Bosnia and Herzegovina fueled acrimony between individual nations, such as the 1967 Declaration in Zagreb claiming a Croatian linguistic and literary tradition separate from the Serbian one, thus undermining the validity of the "Serbo-Croatian" language. Also, Kosovo Albanians and Montenegrins,

along with Slovenes and Croats began to assert their national rights as superior to their rights as Yugoslav nationals.

The Eighth Congress of the League of Communists of Yugoslavia (LCY) in December 1964 acknowledged that ethnic prejudice and antagonisms existed in socialist Yugoslavia. The Congress went on record against the position that Yugoslavia's nations had become obsolete and were disintegrating into a socialist "Yugoslavism." Thus the republics, based on individual nations, became bastions of a strong Federalism that advocated the devolution and decentralization of authority from the federal to the republic level. "Yugoslav Socialist Patriotism" was at times defined as a deep feeling for one's own national identity within the socialist self-management of Yugoslavia.

Economic reforms were the other focus of the Eighth LCY Congress led by Croatia and Slovenia, with emphasis on efficiencies and local economic development decisions with profit criteria as their basis. The liberal bloc (Slovenia, Croatia, Macedonia, Vojvodina) prevailed over the Conservative group and the reforms of 1965 did away with central investment planning and political factories. The positions of the two blocks hardened into a national-liberal coalition that viewed the conservative, centralist group led by Serbia as the Greater Serbian attempt at majority domination.

To the conservative centralists the devolution of power to the republic level meant the subordination of the broad "Yugoslav" and "Socialist" interests to the narrower "nationalist" interest of republic national majorities. With the Croat League of Communists taking the liberal position in 1970, nationalism was rehabilitated as long as it didn't slide into chauvinism. Thus the "Croatian Spring" bloomed and impacted all the other republics of Yugoslavia. Meanwhile, as the result of a series of 1967–68 constitutional amendments that limited federal power in favor of the republics and autonomous provinces, the Federal Government was seen by liberals more as an inter-republican problem-solving mechanism bordering on a confederacy. A network of inter-republican committees established by mid-1971 proved to be very efficient at resolving a large number of difficult issues in a short time. The coalition of liberals and nationalists in Croatia generated sharp condemnation in Serbia, where its own brand of nationalism grew stronger, but as part of a conservative-centralist alliance. Thus the liberal/federalist versus conservative/centralist opposition became entangled in the rising nationalism within each opposing bloc. The devolution of power in economic decision-making spearheaded by the Slovenes assisted in the "federalization" of the League of Communists of Yugoslavia. This resulted in a league of quasi-sovereign republican parties. Under strong prodding from the Croats, the party agreed in 1970 to the principle of unanimity for decision making that, in practice, meant a veto power for each republic. However, the concentration of economic resources in Serbian hands continued with Belgrade banks controlling half of total credits and some 80% of foreign credits. This was also combined with the fear of Serbian political and cultural domination. The Croats were particularly sensitive regarding language, alarmed by the use of the Serbian version of Serbo-Croatian as the norm with the Croatian version as a deviation. The language controversy thus exacerbated the economic and political tensions, leading to easily inflamed ethnic confrontations.

Particularly difficult was the situation in Croatia and Serbia because of issues relating to their ethnic minorities—Serbian in Croatia and Hungarian/Albanian in Serbia. Serbs in Croatia sided with the Croat conservatives and sought a constitutional amendment guaranteeing their own national identity and rights and, in the process, they challenged the "sovereignty" of the Croatian nation and state, as well as its right to self-determination, including the right to secession. The conservatives won and the amendment declared that "the Socialist Republic of Croatia [was] the national state of the Croatian nation, the state

of the Serbian nation in Croatia, and the state of the nationalities inhabiting it."

Meanwhile Slovenia, not burdened by large minorities, developed a similar liberal and nationalist direction along with Croatia. This fostered an incipient separatist sentiment opposed by both the liberal and conservative party wings. Led by Stane Kavčič, head of the Slovenian government, the liberal wing gained as much political local latitude from the Federal level as possible during "Slovenian Spring" of the early 1970s. By the summer of 1971, the Serbian party leadership was pressuring President Tito to put an end to the "dangerous" development of Croatian nationalism. While Tito wavered because of his support for the balancing system of autonomous republic units, the situation quickly reached critical proportions also in terms of the direct interests of Bosnia and Herzegovina. Croat nationalists, complaining about discrimination against Croats in Bosnia and Herzegovina, demanded the incorporation of Western Herzegovina into Croatia. Serbia countered by claiming Southeastern Herzegovina for itself. Croats also advanced many economic and political claims: to a larger share of their foreign currency earnings, to the issuance of their own currency, to establishment of their own national bank to negotiate foreign loans, to the printing of Croatian postage stamps, to a Croatian army and to recognition of the Croatian Sabor (Assembly) as the highest Croatian political body and, finally, to Croatian secession and complete independence.

Confronted with such intensive agitation, the liberal Croatian party leadership could not back down and did not try to restrain the public demands nor the widespread university students' strike of November 1971. This situation caused the loss of support from the liberal party wings of Slovenia and even Macedonia. At this point Tito intervened, condemned the Croatian liberal leadership on 1 December 1971 and supported the conservative wing. The liberal leadership group resigned on 12 December 1971. When Croatian students demonstrated and demanded an independent Croatia, the Yugoslav army was ready to move in if necessary. A wholesale purge of the party liberals followed, with tens of thousands expelled from the party. Key functionaries lost their positions, while several thousands were imprisoned (including Franjo Tuđman who later became president in independent Croatia). Leading Croatian nationalist organizations and their publications were closed. On 8 May 1972 the Croatian party also expelled its liberal wing leaders and the purge of nationalists continued through 1973 in Croatia, as well as in Slovenia and Macedonia. However, the issues and sentiments raised during the "Slovene and Croat Springs" of 1969–71 did not disappear. Tito and the conservatives were forced to satisfy nominally some demands and the 1974 Constitution was an attempt to resolve the strained inter-republican relations as each republic pursued its own interests over and above a conceivable overall "Yugoslav" interest. The repression of liberal-nationalist Croats was accompanied by a growing influence of the Serbian element in the Croatian Party (24% in 1980) and police force (majority), contributing to the continued persecution and imprisonment of Croatian nationalists into the 1980s.

Beginning in 1986, work began on amendments to the 1974 Constitution. When these were submitted in 1987, they created a furor, particularly in Slovenia. Opposition was strongest to the amendments that proposed creation of a unified legal system, central control of transportation and communication, centralizing the economy into a unified market, and granting more control to Serbia over its autonomous provinces of Kosovo and Vojvodina. These changes were seen as being accomplished at the expense of the individual republics. A recentralization of the League of Communists was also recommended but opposed by liberal/nationalist groups. Serbia also proposed changes to the bicameral Federal Skupština (Assembly)—replacing it with a tricameral one where deputies would no longer be elected by their

republican assemblies but through a “one person, one vote” national system. Slovenia, Croatia, and Bosnia strongly opposed the change; they also opposed the additional Chamber of Associated Labor that would have increased the Federal role in the economy. The debates over the recentralizing amendments caused an even greater focus in Slovenia and Croatia on the concept of a confederate structure based on self-determination of sovereign states, and a multi-party democratic system as the only one that could maintain some semblance of a “Yugoslav” state.

By 1989, the relations between Slovenia and Serbia reached a crisis point, especially following the Serbian assumption of control in the Kosovo and Vojvodina provinces (as well as in Montenegro). Their leadership groups refused even to meet and Serbs began a boycott of Slovenian products, withdrew savings from Slovenian banks, and terminated economic cooperation and trade with Slovenia. Serbian President Milošević's tactics were extremely distasteful to the Slovenians and the use of force against the Albanian population of the Kosovo province worried the Slovenes (and Croats) about the possible use of force by Serbia against Slovenia itself. The tensions with Serbia convinced the Slovenian leadership of the need to take protective measures and, in September 1989, draft amendments to the Constitution of Slovenia were published. These included the right to secession, the sole right of the Slovenian legislature to introduce martial law and to control the deployment of armed forces in Slovenia. The latter was particularly needed, since the Yugoslav Army, largely controlled by a mostly Serbian/Montenegrin officer corps dedicated to the preservation of a communist system, had a self-interest in preserving the source of their own budgetary allocations of some 51% of the Yugoslav federal budget.

A last attempt at salvaging Yugoslavia was to be made as the extraordinary Congress of the League of Communists of Yugoslavia convened in January 1990 to review proposed reforms such as free multi-party elections and freedom of speech. The Slovenian delegation attempted to broaden the spectrum of reforms but was rebuffed and walked out on 23 January 1990, pulling out of the Yugoslav League. The Slovenian Communists then renamed their party the Party for Democratic Renewal. The political debate in Slovenia intensified and some nineteen parties were formed by early 1990. On 10 April 1990 the first free elections since before World War II were held in Slovenia where there still was a three-chamber Assembly: political affairs, associated labor, and territorial communities. A coalition of six newly formed democratic parties, called Demos, won 55% of the votes, with the remainder going to the Party for Democratic Renewal, the former Communists, 17%; the Socialist Party, 5%; and the Liberal Democratic Party (heir to the Slovenia Youth Organization), 15%. The Demos coalition organized the first freely elected Slovenian Government of the post-Communist era with Dr. Lojze Peterle as the Prime Minister.

Milan Kučan, former head of the League of Communists of Slovenia was elected President with 54% of the vote. His election was seen as recognition of his efforts to effect a bloodless transfer of power from a monopoly by the Communist party to a free multi-party system and his standing up to the recentralizing attempts by Serbia.

All of these developments had also a deep impact on Bosnia and Herzegovina. When the Antifascist Council of the National Liberation of Yugoslavia (AVNOJ) proclaimed the federal principle on 29 November 1943, Bosnia and Herzegovina was included as one of the constituent republics of post-World War II Yugoslavia. Muslims made up 30.9% of the population by 1948, with 45% for the Serbs and 24% for the Croats. Muslims, however, were not considered a “nation” yet, since Aleksander Ranković, Tito's close friend and chief of security, had favored an unofficial “Serbianization” policy vis-à-vis the Muslim population. Only after Ranković's dismissal in 1966 and a subsequent purge of his secret police was a real debate opened on

the issue of a Muslim “nation.” Serbs claimed that Muslims were Islamized Serbs, and Croats claimed that Muslims were descendants of the Croatian Bosnian Church (Bogomils) that had converted to Islam. The Muslims themselves, meanwhile, claimed their own separate identity and were recognized as equal to Serbs and Croats. They entered the 1971 census as “Muslims, in the ethnic sense.”

The sense of Muslim identity grew stronger and incorporated demands for Muslim institutions parallel to the Serbian and Croatian ones. Muslims sought to define themselves as the only “true” Bosnians and thus a call to define Bosnia and Herzegovina as a “Muslim” Republic. Muslim activist groups multiplied during the 1970s and 1980s, and one such group was put on trial in April 1983 for illegally plotting the creation of a Muslim Republic. Members were sentenced to long jail terms, but given amnesty in 1988. One of the group was the 1994 president of Bosnia and Herzegovina, Alija Izetbegović.

Since the 1970s and into the late 1980s the Muslims' self-assertiveness as an ethnic community grew ever stronger and was viewed as a balancing element between Serbs and Croats. As the winds of change away from communism swept the western republics of Slovenia and Croatia in 1989 and 1990, Bosnia and Herzegovina also was preparing for multi-party elections to be held on 18 November 1990. Meanwhile, across Bosnia and Herzegovina's borders with Croatia, the Serbian population was clamoring for its own cultural and political autonomy. Serbs perceived threats from the Croatian Democratic Union, the winner in the April 1990 elections in Croatia with 205 out of 356 seats in the tricameral Croatian parliament.

By July 1990, a Bosnia and Herzegovina branch of the Croatia-based Serbian Democratic Party had become very active in the 18 Bosnian communes with Serbian majorities adjacent to the Croatia “Krajina” (border area). By the fall of 1990, the program of the Serbian Democratic Party in Croatia had advanced a plan to include the Bosnian Serbs into a joint “Krajina” state which would have a federal arrangement with Serbia proper. This arrangement, it was hoped, would undercut any thoughts of a confederation of Slovenia, Croatia, and Bosnia and Herzegovina. Such a confederation, however, was favored by the Party of Democratic Action (Muslim) and the Croatian Democratic Union. In spite of their differences in long term goals, the three nationalist parties were committed to the continuation of Bosnia and Herzegovina and to the termination of Communist rule. On 1 August 1990, Bosnia and Herzegovina declared itself a “sovereign and democratic state.” The former Communist Party became the Party of Democratic Change, while Yugoslavia's Prime Minister Marković formed the Alliance of Reform Forces that advocated his economic reforms.

The electoral results gave 87 seats in the parliament to the Muslim Party, 71 to the Serbian Party, 44 to the Croatian Democratic Union with 18 to the former Communists and 13 to the Alliance of Reform Forces. The three ethnic parties then formed a coalition government with Alija Izetbegović of the Muslim Party as President of Bosnia and Herzegovina.

### Independence and War

Meanwhile, Slovenia and Croatia had published a joint proposal in October 1990 for a confederation of Yugoslavia as a last attempt at a negotiated solution, but to no avail. The Slovenian legislature also adopted a draft constitution in October proclaiming that “Slovenia will become an independent state.” On 23 December 1990, a plebiscite was held on Slovenia's “disassociation” from Yugoslavia if a confederation solution could not be negotiated within a six month period. An overwhelming majority of 89% of voters approved the secession provision and on 26 December 1990, a Declaration of Sovereignty was also adopted. All federal laws were declared void in Slovenia as of 20 February 1991, and, since no negotiated



agreement was possible, Slovenia declared its independence on 25 June 1991. On 27 June 1991, the Yugoslav Army tried to seize control of Slovenia and its borders with Italy, Austria, and Hungary under the pretext that it was its constitutional duty to assure the integrity of Socialist Yugoslavia. The Yugoslav Army units were surprised by the resistance they encountered from the Slovenian "territorial guards" which surrounded Yugoslav Army tank units, isolated them, and engaged in close combat, mostly along border checkpoints. These battles ended in most cases with Yugoslav units surrendering to the Slovenian forces. Fortunately, casualties were limited on both sides, but over 3,200 Yugoslav Army soldiers surrendered and were taken prisoner. They were well treated by the Slovenes, who in a public relations coup, had the prisoners call their parents all over Yugoslavia to come to Slovenia and take their sons back home. The war in Slovenia was ended in ten days due to the intervention of the European Community, which, with the Brioni agreements of 7 July 1991, established a cease-fire, and a three-month moratorium of Slovenia's and Croatia's implementation of independence. This gave time to the Yugoslav Army to retreat from Slovenia with all its hardware and supplies by the end of October 1991.

The coalition government of Bosnia and Herzegovina had a very difficult time maintaining the spirit of ethnic cooperation won in its elections, while the situation in Slovenia and Croatia was moving to the point of no return with their declaration of independence of 25 June 1991 and the wars that followed. Particularly worrisome were the clashes in Croatia between Serbian paramilitary forces and Croatian police and the intervention of the Yugoslav Army in order to "keep the peace." Another element that worried the Bosnian government was the concentration of Yugoslav Army units in Bosnia and Herzegovina following their retreat first from Slovenia and then from Croatia. On 15 October 1991 the parliament of Bosnia and Herzegovina, minus its Serbian delegation (they had walked out before the vote), approved documents providing the legal basis for the republic's eventual independence. In response to it, the Serbian Democratic Party held a plebiscite in the two-thirds of Bosnian territory under Serbian control and announced the establishment of a Serbian Republic inside Bosnia and Herzegovina.

In December 1991, the Bosnian Parliament passed a Declaration of Sovereignty and President Izetbegović submitted to the European Community an application for international recognition of Bosnia and Herzegovina as an independent nation. As required by the European Community, a referendum on independence was held on 29 February 1992. With the Serbs abstaining in opposition to the secession from Yugoslavia, Muslims and Croats approved an independent Bosnia and Herzegovina by a vote of 99.7%. In reaction to the referendum, Serbs proceeded to prepare for war in close cooperation with the Yugoslav army.

A last attempt at reaching a compromise was made at a conference in Lisbon in late February 1992, when a provisional consensus of the three parties was obtained on a draft constitutional agreement to partition Bosnia and Herzegovina into three ethnic-based "cantons." But President Izetbegović, trusting the US would not allow a Balkan war and hoping for a better deal than the proposed 44% of Bosnian territory with over 80% of the Muslim population, rejected the provisional Lisbon agreement.

On 1 March 1992 in Sarajevo a Serbian wedding party was fired upon. This was the spark that ignited armed confrontations in Sarajevo and other areas of Bosnia and Herzegovina. The breakdown of the Lisbon agreements infuriated the Bosnian Serbs who, by late March of 1992, formally established their own "Serbian Republic of Bosnia and Herzegovina." The international recognition of Bosnia and Herzegovina by the European Community and the US (along with the recognition of Slovenia and Croatia) was issued on 6 April 1992, the

anniversary of the 1941 Nazi invasion of Yugoslavia. This action was viewed as another affront to the Serbs, and gave more impetus to Serbian determination to oppose the further splitting of Yugoslavia that would cause the final separation of Serbs in Croatia and Bosnia and Herzegovina from Serbia proper. The bond among the Serbs of Croatia and Bosnia with the Serbian government controlled by Slobodan Milošević, and with the Yugoslav Army was firmly cemented. The decision of Serbia, along with the Serbs of Bosnia and Croatia, to take advantage of Yugoslavia's demise and try to unite Serbian territories in Croatia and Bosnia and Herzegovina with Serbia proper precipitated the wars in Croatia first and then in Bosnia and Herzegovina. Desperate acts by Serbs engaged in "ethnic cleansing" (torching, and systematic rape and executions in imitation of the World War II Ustaša tactics) revolted the whole world and elicited retaliation by the initially allied Croats and Muslims.

War spread in Bosnia in mid-1992 with the relentless bombardment of Sarajevo by Serbs and the brutal use of "ethnic cleansing," primarily by Serbs intent on freeing the areas along the Drina River of Muslim inhabitants. Croats and Muslims retaliated in kind, if not in degree, while Serbs took over control of some 70% of the country and used concentration camps and raping of women as systematic terror tactics to achieve their "cleansing" goals. Croats kept control of western Herzegovina, while their Muslim allies tried to resist Serbian attacks on mostly Muslim cities and towns full of refugees exposed to shelling and starvation while the world watched in horror. The European Community, the United States, the UN, and NATO coordinated peacekeeping efforts, dangerous air deliveries to Sarajevo, air drops of food and medicinal supplies to keep the people of Sarajevo from dying of starvation and sicknesses.

The various plans proposing the division of Bosnia and Herzegovina into ethnic "cantons" were not acceptable to the winning Serbian side. They were well supplied with weapons by the departed Yugoslav Army and had their own armament factories. Meanwhile, an international arms embargo was imposed on all former Yugoslav Republics, preventing the Bosnian government from acquiring needed weapons, except through illegal smuggling mostly from Islamic countries. The "cantonization" plans were also a partial cause for the breakdown of the Muslim-Croatian alliance when the two sides began fighting over areas of mixed Croat and Muslim populations. One such area was the city of Mostar in Herzegovina, where the Croats had established the Croatian union of "Herzeg-Bosnia," later (August 1993) named the state of Herzeg-Bosnia. Finally, under the threat of air strikes from NATO, the Serbs agreed to stop the shelling of Sarajevo and hand over (or remove) their heavy artillery by February 1994, so Sarajevo could get a respite from its bloody siege of several years. A truce was implemented by mid-February 1994 and was barely holding while continuing negotiations were taking place that, on US initiative, brought Croats and Muslims back together on a confederation plan accepted by the two sides and signed in Washington on 18 March 1994.

In July 1994, the EC, the US, and Russia agreed on a partition plan giving the Croat-Muslim side 51% of the land, with 49% offered to the Bosnian Serbs who, holding 70%, would need to give up a large area under their control. As of the end of July 1994, the Bosnian Serbs' parliament had rejected the plan and had resumed occasional sniping and mortar shelling of Sarajevo, shooting at UN peacekeepers and supply airplanes, and blocking of the single access road to Sarajevo. After almost two-and-a-half years of war, destruction, and terrible suffering imposed on the people of Bosnia and Herzegovina, the efforts of the international community and its very cumbersome decision-making process had brought Bosnia and Herzegovina back to the partitioning plan originally agreed on at the Lisbon meeting of February 1992. In the fall of 1994, President Milošević of Serbia had

closed the borders between Serbia and Bosnia and Herzegovina in order to stop any further assistance to the “Republika Srpska” that he himself helped establish. President Milošević agreed to “extricate” Serbia from its direct support for the Bosnian Serbs in the hope that a compromise partitioning plan that would allow each side to “confederate” with Croatia and Serbia respectively and would offer both sides the opportunity to turn their energies to positive efforts of physical and psychological reconstruction.

The quest to create a “Greater Serbia” continued into July 1995, when Bosnian Serbs overran the UN protected areas of Srebrenica and Zepa, extending their territory near the Croatian border. Over 8,000 Bosnian Muslim men and boys were summarily executed at Srebrenica. In retaliation, NATO forces initiated air raids on Bosnian Serb positions on 30 August 1995. Two weeks later, Bosnian Serb forces began lifting their siege on Sarajevo, and agreed to enter into negotiations on the future of Bosnia. Pressured by air strikes and diplomacy, Serb leaders joined authorities from Croatia and Bosnia in Dayton, Ohio for US-sponsored peace talks.

### The Dayton Accords

After three years of war, the General Framework Agreement for Peace in Bosnia and Herzegovina was completed on 21 November 1995 in Dayton, Ohio. Signed in Paris in mid-December, the agreement called for 60,000 NATO peacekeepers to oversee the disarming process (30,000 remained in 1997). The agreement, known as the Dayton Accords, provided for the continuity of Bosnia and Herzegovina as a single state with two constituent entities: the Federation of Bosnia and Herzegovina (FBH) and the Republika Srpska (RS). The FBH occupies the 51% of the territory with a Bosniak (Muslim) and Croat majority, while the RS occupies the remaining 49% with a Bosnian Serb majority. Following the signing of the Dayton Accords, the UN economic sanctions against the Federal Republic of Yugoslavia and the Bosnian Serb party were suspended, and the arms embargo was lifted (except for heavy weapons). During 1996, the NATO-led Implementation Force assisted with the military aspects of the Dayton Accords to provide stability in order to facilitate civilian reconstruction and the return of refugees and displaced persons. Elections were scheduled and conducted on 11 September 1996.

In March 1996, the International Criminal Tribunal for the former Yugoslavia filed its first charges against Serbian soldiers accused of committing atrocities in Bosnia. Among those cited were Serb generals Djordje Djukic and Ratko Mladic, and the former Bosnian Serb leader Radovan Karadzic. In May 1997, the tribunal completed its first trial with a conviction of a Bosnian Serb police officer for murdering two Muslim policeman and the torture of Muslim civilians. The tribunal also brought to trial three Bosnian Muslims and a Croatian soldier charged with atrocities committed at a Muslim-run prison camp.

Casualty estimates from the war vary from as low as 25,000 to over 250,000 persons. Some 3 million people became refugees or internally displaced persons. About 250,000 Bosnian refugees returned to the country in 1996, and around 200,000 in 1997. About 320,000 Bosnians had taken refuge in Germany during the war. However, the refugees returned to find a significant housing shortage (60% of all homes were destroyed) and massive unemployment. Moreover, the goals of the Dayton Accords to encourage the rebuilding of multi-ethnic communities have not been realized. Bosnian Serb and Bosnian Croat leaders continue to reinforce ethnic partitions and have resisted cooperation with Bosniaks to carry out the peace agreement. There is international concern about the plight of the returning refugees, who are often being resettled in dwellings that were occupied by Serbs before the war. The resulting disputes over property are often the basis of incidents for ethnic discrimination.

Despite the Dayton Accords, outbreaks of violence persisted. In February 1997, Bosnian Croat police killed one man and wounded 20 others while firing on a crowd of 200 Muslims at a cemetery in the divided city of Mostar. This worst episode of violence since the 1995 agreement was followed by the eviction of 100 Muslims from their homes in the Croat western sector of Mostar. The legacy of centuries of confrontations by the Austro-Hungarian, Russian, and Turkish Empires in the Balkans continued to haunt the area and a rekindling of the conflict was almost inevitable. In June 1998 NATO peacekeeping forces decided to extend their stay until a more stable peace was achieved. General elections held in 1998 were relatively quiet, but tensions in the Kosovo region increased as Yugoslav forces attacked Kosovar rebels. In March 1999 NATO jets downed two Yugoslav MiG fighters, allegedly thwarting an attempted attack on peacekeeping forces. Fighting between Serbs and ethnic Albanians in Kosovo raged as NATO aircraft bombed the area. Russia attempted to pass a resolution on the UN Security Council to forbid further bombing runs by NATO warplanes, but failed. Violent conflicts dissipated through the next year, as the International Court of Justice furthered reparations for crimes, and Yugoslavia agreed to a peace plan on 3 June 1999.

Bosnia and Croatia signed a border agreement in July 1999, and a border crossing closed for much of the decade was reopened in August. The strategically located city of Brcko—previously Serb-ruled, and a main site of contention between the country’s factions—received a Muslim-Croat/Serb coalition government in March 1999 from the Hague International Court of Justice. Officials from the Serb Republic were disturbed because this portion of land was the one territorial link between the western and eastern portions of the Republic. In 1999, NATO began reducing the 25-nation peacekeeping force by one-third over a period of six months. At the end of 1999, the US House International Relations Committee found that hundreds of millions of dollars in assistance funding had disappeared from Bosnia and Herzegovina. Mass gravesites continued to be unearthed in northeastern Bosnia, near Sarajevo and in Srebrenica as numerous war criminals were arrested and brought to trial at the Hague.

Municipal elections were held in March 2000, and general elections took place that November. The November elections resulted in a win for the Serbian nationalist Serb Democratic Party (SDS), formerly lead by Karadzic, in the Republika Srpska; the Croatian nationalist HDZ party won among ethnic Croat voters; but the reformist Social Democratic Party narrowly beat the Bosnian Muslim nationalist Party of Democratic Action (SDA) party in certain areas of the Federation. In May 2001, Bosnian Serbs used force to break up ceremonies marking the rebuilding of 2 destroyed mosques in Banja Luka and Trebinje. Several Bosniaks were injured and one was killed, cars were set on fire, and rocks and bottles were thrown at police and others.

Parliamentary, presidential, and municipal elections were held in October 2002, and nationalists strengthened their positions. Throughout 2000–03, the work of the International Criminal Tribunal for the former Yugoslavia at The Hague continued. In 2001, former Bosnian Serb President Biljana Plavsic surrendered to the tribunal, but pleaded not guilty to charges of genocide; however, in October 2002, she changed her plea to one of guilty of crimes against humanity, and was sentenced to 11 years in prison. In early 2001, a verdict against 3 Bosnian Serbs found guilty of torturing and raping Bosnian Muslim women marked the first time the tribunal called rape a crime against humanity. Later that year the tribunal found Bosnian Serb general Radislav Krstic guilty of genocide for his role in the massacre at Srebrenica; he was sentenced to 46 years in prison.

In May 1999, former Yugoslav President Milošević was indicted by the tribunal for war crimes committed in Kosovo; he was subsequently indicted for crimes committed in Bosnia and

Herzegovina and Croatia, including charges of genocide carried out in Bosnia and Herzegovina from 1992–95. His trial began in February 2002. As of April 2003, the NATO-led Stabilization Force in Bosnia and Herzegovina (SFOR) was still in operation.

### 13 GOVERNMENT

Several proposals contributed to the current system of government, which was outlined through the Dayton Accords of 1995. The February 1992 Lisbon proposal first suggested the partitioning of Bosnia and Herzegovina into “ethnic cantons,” but was rejected by the Muslim side. The Vance-Owen proposal of early January 1993 dividing Bosnia and Herzegovina, still a unified state, into nine “ethnic majority” provinces with Sarajevo as a central weak government district was accepted by Croats and Muslims on 7 January 1993 and ratified on 20 January 1993 by the Bosnian Serbs’ Parliament with a 55-to-15 vote in spite of deep misgivings. However, two key events delayed the necessary detailed implementation discussions: Croat forces’ attacks on Muslims in Bosnia and Herzegovina and on Serbs in Croatia, and the new administration of US president Bill Clinton, from whom the Bosnian Muslims hoped to obtain stronger support, even military intervention. Thus by mid-March 1993, only the Croats had agreed to the three essential points of the Vance-Owen proposal, namely the Constitutional Principles (ten provinces), the Military Arrangements, and the detailed map of the ten provinces. On 25 March 1993 the Bosnian Muslims agreed to all the terms, but the Bosnian Serb legislature on 2 April 1993 rejected the revised ten-province map and the Vance-Owen plan was scuttled.

The Owen-Stoltenberg plan was based on a June 1993 proposal in Geneva by Presidents Tudjman and Milošević about partitioning Bosnia and Herzegovina into three ethnic-based “states.” Owen-Stoltenberg announced the new plan in August 1993 indicating that the three ethnic states were realistically based on the acceptance of Serbian and Croatian territorial “conquests.” At the same time the Croat Bosnian “Parliament” announced the establishment of the “State of Herzeg-Bosnia” and the Croatian Democratic Alliance withdrew its members from the Bosnian Parliament. The Bosnian Parliament then rejected the Owen-Stoltenberg Plan while seeking further negotiations on the Muslim state’s territory and clarifications on the international status of Bosnia and Herzegovina.

The next plan, developed with the more proactive participation of the United States and bringing together again the Croats and Muslims into a federation of their own, was signed in Washington on 18 March 1994 following the Sarajevo cease fire of 17 March. On 31 March 1994 the Bosnian assembly in Sarajevo approved the new constitutional provisions establishing a Federation of Muslims and Croats with the Presidency to alternate between Croats and Muslims. The Geneva contact group (US, UK, France, Germany, Russia) agreed on a new partition plan in July 1994 that divided Bosnia and Herzegovina: 51% to the joint Muslim-Croat federation and 49% to the Serbs.

Under the Dayton Accords, a constitution for Bosnia and Herzegovina was established that recognized a single state with two constituent entities. The Federation of Bosnia and Herzegovina (FBH) incorporated the 51% of the country with a Bosnian Muslim and Bosnian Croat majority, while the Republika Srpska (RS) occupied the 49% of the country with a Bosnian Serb majority. The constitution specified a central government with a bicameral legislature, a three-member presidency comprised of a member of each major ethnic group, a council of ministers, a constitutional court, and a central bank. The bicameral Parliamentary Assembly consists of a House of Peoples, with 15 delegates, and the House of Representatives, with 42 members. In each house, two-thirds of the representatives are from the Federation of Bosnia and Herzegovina and one-third from the Republika Srpska.

Elections for central and federation-level canton offices were conducted on 14 September 1996 as specified by the Dayton Accords. Alija Izetbegović, Momcilo Krajisnik, and Kresimir Zubak were elected to the presidency representing respectively the Bosniaks (Muslims), Serbs, and Croats. Izetbegović was named Chair in accordance with the new constitution. Krajisnik, later accused of joining Karadzic in siphoning off million of dollars in potential tax revenue through gasoline and cigarette monopolies, boycotted the council after one meeting, paralyzing the government.

Izetbegović was reelected to the Muslim seat of the joint presidency in the September 1998 elections; Ante Jelavic won the Croat seat; and Zivko Radisic, the Serb seat. An eight-month chairpersonship rotates among the three joint presidents. Elections were held in 2002. Sulejman Tihić won the Muslim seat; Dragan Cović, the Croat seat; and Mirko Sarović, the Serb seat.

The FBH government has a president and a bicameral parliament (House of Representatives and House of Peoples). The RS government has a president and a unicameral legislature (National Assembly).

### 14 POLITICAL PARTIES

Three main political parties wield significant political power at all levels of government. The Serb Democratic Party (SDS) dominates the Republika Srpska, the Party of Democratic Action (SDA) is the main Bosniak (Muslim) nationalist party, and the Croatian Democratic Union of Bosnia and Herzegovina (HDZ) represents Croat areas. However, a reformist party, the Social Democratic Party (SDP) in the FBH is gaining in popularity. Other parties include: Party for Bosnia and Herzegovina (SBIH); Civic Democratic Party (GDS); Croatian Peasants’ Party of BiH (HSS); Independent Social Democratic Party (SNSD); Liberal Bosniak Organization (LBO); Liberal Party (LS); Muslim-Bosniak Organization (MBO); Republican Party of Bosnia and Herzegovina (RP); Serb Civic Council (SGV); Socialist Party of Republika Srpska (SPRS); Democratic Socialist Party (DSP); Social Democrats of Bosnia Herzegovina; Party for Democratic Progress (PDP); National Democratic Union (DNZ); Serb National Alliance (SNS); and the Coalition for a United and Democratic BiH (coalition of SDA, SBIH, LS, and GDS). Parliamentary elections were held on 5 October 2002, and seats in the House of Representatives were distributed as follows: SDA, 10 seats; the SBIH, 6 seats; the SDS, 5 seats; the Coalition, 5 seats; the SDP, 4 seats; the SNSD, 3 seats; the PDP, 2 seats; and 6 other parties took 1 seat each.

### 15 LOCAL GOVERNMENT

Bosnia and Herzegovina is divided into the Federation of Bosnia and Herzegovina (FBH) and the Republika Srpska (RS). The FBH is further divided into 10 cantons: Gorazdze, Livno, Middle Bosnia, Neretva, Posavina, Sarajevo, Tuzla Podrinje, Una Sana, West Herzegovina, and Zenica Doboje. There are also municipal governments. Brcko district, in northeastern Bosnia, is an administrative unit under the sovereignty of Bosnia and Herzegovina; it is not part of either the RS or the FBH, and the district remains under international supervision.

### 16 JUDICIAL SYSTEM

The 1995 Dayton Accords established a constitution including a Constitutional Court composed of 9 members. The Constitutional Court’s original jurisdiction lies in deciding any constitutional dispute that arises between the FBH and the RS or between Bosnia and Herzegovina and one or both of the FBH and the RS. The Court also has appellate jurisdiction within the territory of Bosnia and Herzegovina. The constitution provides for an independent judiciary, although it is subject to influence by nationalist elements, political parties, and the executive branch.

Original court jurisdiction exists in both municipal and cantonal courts (10 in the FBH); the RS has 5 municipal courts and district courts. Appeals in the FBH are taken to the Federation Supreme Court, and in the RS to the RS Supreme Court. The constitution provides for open and public trials. The legal system is based on civil law system.

## 17 ARMED FORCES

The armed forces consist of some 9,200 personnel. Under the Dayton Peace Accord (1995) and the Common Defence Policy (2001) the armed forces are being reduced. Defense spending in 1998 totaled \$397 million or 8.1% of GDP.

## 18 INTERNATIONAL COOPERATION

Bosnia and Herzegovina was admitted to the UN on 22 May 1992. Bosnia and Herzegovina is also a member of the ECE, FAO, IAEA, OSCE, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, WMO, and has applied for membership in the WTO. The country is applying for membership in other international organizations. As of April 2003, a NATO-led Stabilization Force (SFOR) maintained a military presence in Bosnia and Herzegovina to deter hostilities and work toward establishing a lasting peace in the country.

## 19 ECONOMY

Before the war, Bosnia and Herzegovina ranked next to Macedonia as the poorest republic of the former Yugoslav SFR. Although industry accounted for over 50% of GDP, Bosnia and Herzegovina was primarily agricultural. Farms were small and inefficient, thus necessitating food imports. Industry was greatly overstaffed, with Bosnia and Herzegovina accounting for much of the former Yugoslav SFR's metallic ore and coal production. Timber production and textiles also were important.

The destructive impact of the war on the economy led to a 75% drop in GDP. Since the Dayton Accords of 1995, trade increased in Croat areas, and significant growth began in Muslim areas. Reconstruction programs initiated by the international community financed the construction of infrastructure and provided loans to the manufacturing sector. External aid amounted to \$5 billion between 1995–99. This aid caused growth rates to increase to 30%, but as of 2003, that rate had stabilized to around 6%. Actual GDP growth by that year had reached half its pre-war level.

Privatization has been slow and Western financial organizations are increasing calls for reform in this area, especially in telecommunications and energy. (The private sector accounts for only 35% of the economy.) Foreign direct investment remains low, due in part to corruption and many layers of bureaucracy. Tax reform is needed, as is reform of the banking industry and the financial services sector. In 2002, the government adopted a poverty reduction strategy designed to create more jobs and increase exports. As foreign aid declines in coming years, Bosnia and Herzegovina will need to increase exports to generate hard currency revenues. Some progress was made in this area in 2001 with exports of clothing, furniture, and leather goods.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Bosnia and Herzegovina's gross domestic product (GDP) was estimated at \$7 billion. The per capita GDP was estimated at \$1,800. The annual growth rate of GDP was estimated at 6%. The average inflation rate in 2001 was 5%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 16% of GDP, industry 28%, and services 56%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$179.1 million or about \$138 per capita and accounted for approximately 12.9% of GDP. Foreign aid receipts amounted to about \$157 per capita and accounted for approximately 13% of the gross national income (GNI).

## 21 LABOR

The labor force in 2002 numbered 1.026 million. In 2001, the unemployment rate stood at an estimated 40%. All workers are legally entitled to form or join unions and to strike, but labor activity is limited due to high unemployment rates and economic hardship. Unions are highly politicized and are formed along ethnic lines. Strikes were used frequently in 2001 as a form of protest against arrears in salaries and overdue wages.

The minimum employment is 15, however, many younger children often assist with family agricultural work. As of 2001, the minimum wage was \$100 per month in the Federation and \$32 in Republika Srpska. The legal workweek in both entities is 40 hours although seasonal workers may work up to 60 hours per week. Rules regarding rest and vacation vary. Safety and health regulations are generally ignored due to the economic devastation of war.

## 22 AGRICULTURE

About 12.7% (650,000 hectares/1,606,000 acres) of the total area was considered arable land in 1998. About 5.6% of the economically active population was engaged in agriculture in 1999. During the disintegration of the Yugoslav SFR, civil fighting in the major agricultural areas often interrupted harvests and caused considerable loss of field crops, as indicated by the following summary of the 1999 harvest (in 1,000 tons): corn, 160; wheat, 188; potatoes, 380; fruit, 78; vegetables and melons, 609; and onions (dry), 35.

## 23 ANIMAL HUSBANDRY

There are some 1.2 million hectares (three million acres) of permanent pastureland, representing about 23.5% of the total land area. Because of the breakup of the Yugoslav SFR and subsequent civil war, the livestock population fell significantly during the 1990s, as shown in the following summary of 1999 livestock inventory (in 1,000s): sheep, 285 (down from 1,319 in 1990); cattle, 350 (down from 874 in 1990); pigs, 80 (down from 614 in 1990); horses, 50 (down from 100 in 1990); and chickens, 4,000 (down from 9,000 in 1990).

Production of meat fell from 158,000 tons in 1990 to about 100,000 tons in 1993 to 24,000 tons in 1999. In 1999, milk production was 210,000 tons; egg production was 8,000 tons during that time, down from 17,000 tons in 1993.

## 24 FISHING

With no ports on its 20 km (12 mi) of Adriatic coastline, marine fishing is not commercially significant. Inland fishing occurs on the Sava, Una, and Drina Rivers. The total catch in 2000 was 2,500 tons, almost entirely from inland waters.

## 25 FORESTRY

About 2.7 million hectares (6.7 million acres) are forested, accounting for nearly 53% of the total land area. Much of the output is used for fuel. In 2000, forest product imports totaled \$24 million; exports, 65.3 million.

## 26 MINING

The country's top seven industries in 2002 were, in order, steel, coal, iron ore, lead, zinc, manganese, and bauxite. Mining output, which accounted for more than 10% of industrial production, rose by 10.4% in 2000. Iron ore production was centered in Vareš, Jablanica, Ljubija, and Radovan; lead and zinc

ore was mined at Olovo, Vareš, and Srebrenica; manganese ore operations were centered at Bosanska Krupa; bauxite deposits were worked at Vlasenica, Zvornik, and Banja Luka; substantial nickel deposits had been worked near Visegrad; and substantial nickel deposits had been worked near Visegrad. Energoinvest operated a lead-zinc mine at Srebrenica, a manganese mine at Buzim, bauxite mines in many locations, alumina plants at Birac-Zvornik and Mostar, an aluminum smelter at Mostar, and a petroleum refinery at Bosanski Brod. Before the civil war, Bosnia and Herzegovina was a major center for metallurgical industries in the former Yugoslavia and a major producer of bauxite, alumina, and aluminum. Mineral production estimates in 2000 were, in tons: iron ore, 100,000; bauxite, 75,000; lead, 10,000; zinc, 300; salt, 50,000; crude gypsum, 30,000; ceramic clay, 20,000; and ornamental stone, 20,000. Other nonfuel mineral resources included asbestos, barite, bentonite, kaolin, lime, magnesite, ammonia nitrogen, glass sand, sand and gravel, soda ash, caustic soda, and crushed and brown stone. Capacity utilization in industrial minerals mining had fallen to about 14%, and modernization and privatization were essential for long-term viability.

### 27 ENERGY AND POWER

As of 2001, total installed electrical capacity was 3.9 million kW. Net generation in 2000 amounted to 2.6 billion kWh, of which 62.3% was hydroelectric and 37.7% was produced by conventional thermal plants. Electrical generation was irregular during the civil conflict of the early to mid-1990s. Total electricity consumption in 2000 was 2.6 billion kWh.

Brown coal and lignite mines are located around Tuzla. Coal production is consumed primarily by the country's thermal electric power stations. A petroleum refinery at Bosanski Brod reportedly had an annual capacity of 100 million tons in 1995, and depends entirely on imports; however, the refinery was extensively damaged in April 1993 during local fighting.

### 28 INDUSTRY

Mining and mining-related activities make up the bulk of Bosnia and Herzegovina's industry. Steel production, vehicle assembly, textiles, tobacco products, wooden furniture, and domestic appliances are also important industries. Industrial capacity, largely damaged or shut down in 1995 because of the civil war, has increased. In 1998, industrial production grew an estimated 35%. Nevertheless, this figure remains lower than the pre-1992 rate, and in 2001, output stood only about half its prewar level. In the Republika Srpska, the Serb Democratic Party controls every significant production facility, government department, and state institution. Privatization began in 1999, but as of 2001, only 7 of 138 strategic enterprises had been sold. Large gains were made in the export of clothing, furniture, and leather goods in 2001. The construction sector in 2002 held promise for growth, as projects to improve infrastructure were underway.

### 29 SCIENCE AND TECHNOLOGY

Scientific and engineering education is provided at the universities of Sarajevo, Banja Luka, and Tuzla (founded in 1948, 1975, and 1976, respectively). The Institute for Thermal and Nuclear Technology, founded in 1961, is located in Sarajevo. Leading professional groups include the Society of Mathematicians, Physicists and Astronomers, the Union of Engineers and Technicians, and the Medical Society of Bosnia and Herzegovina, all headquartered in Sarajevo.

### 30 DOMESTIC TRADE

Bosnia and Herzegovina is still struggling with efforts to move from socialism to private sector, market-led capitalism. Commerce has been severely restricted by the ongoing interethnic civil strife. In the Bosnian Serb area, senior police commanders

and officials in the governing Serb Democratic Party have a monopoly on cigarette and gasoline sales. Retail establishments tend to be very small with limited inventories, however, some large shopping centers are gaining ground. Direct marketing and sales are also gaining in popularity. Installment plans and financing, even for very low cost items, is common, since credit is not widely available or accepted.

Though post-war reconstruction is nearly complete, as of 2002, the country's economy still depended heavily on foreign aid. With the establishment of the Central Bank and currency board in 1997, inflation has since been brought under control; however, unemployment is still high, at about 40% in 2002. As of 2002, the private sector only accounts for about 35% of the economy.

### 31 FOREIGN TRADE

Due to the UN trade embargo, international trade with Bosnia and Herzegovina was limited during the civil war. In 2000, exports amounted to nearly \$1 billion, up from less than \$400 million in 1998. This upswing in export revenues was led by clothing, furniture, and leather goods. Exports went mainly to Italy, Yugoslavia, and Switzerland. Imports in 2000 totaled \$3.6 billion, with Croatia, Italy, and Slovenia supplying 21%, 16%, and 14% of the total value, respectively.

Before the war, manufactured goods accounted for 31% of exports; machinery and transport equipment, 20.8%; raw materials, 18%; other manufactured products, 17.3%; chemicals, 9.4%; fuel and lubricants, 1.2%; and food and live animals, 1.2%. Fuels and lubricants made up 32% of annual imports before the war; machinery and transport equipment, 23.3%; other manufactured items, 21.3%; chemicals, 10%; raw materials, 6.7%; food and live animals, 5.5%; and beverages and tobacco, 1.9%.

### 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Bosnia and Herzegovina's exports was \$1.1 billion while imports totaled \$3.1 billion resulting in a trade deficit of \$2 billion. The International Monetary Fund (IMF) reports that in 2001 Bosnia and Herzegovina had exports of goods totaling \$1.17 billion and imports totaling \$3.92 billion. The services credit totaled \$288 million and debit \$228 million. Although Bosnia and Herzegovina runs large trade deficits, due to low domestic production, the gap between imports and exports in the early 2000s was narrowing steadily. Export growth in 2001 was fueled by duty-free access of Bosnian exports to the EU.

The following table summarizes Bosnia and Herzegovina's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-1,362</b>
Balance on goods	-2,752
Balance on services	60
Balance on income	336
Current transfers	994
<b>Capital Account</b>	<b>391</b>
<b>Financial Account</b>	<b>1,551</b>
Direct investment abroad	...
Direct investment in Bosnia and Herzegovina	222
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	14
Other investment liabilities	20
<b>Net Errors and Omissions</b>	<b>76</b>
<b>Reserves and Related Items</b>	<b>-655</b>

### 33 BANKING AND SECURITIES

The central bank of Bosnia and Herzegovina is the National Bank of Bosnia and Herzegovina. In June 1992 Yugoslavia's central bank refused to issue Yugoslavian dinars in Bosnia and Herzegovina. Commercial banks in the country include Privredna Banka Sarajevo, Hrvatska Banka d.d. Mostar, and Investiciono-Komercijalna Banka d.d. Zenica.

In 1996, Croatian dinars were used in Croat-held areas for currency, presumably to be replaced by new Croatian Kuna. Old and new Serbian dinars were used in Serb-held areas. Hard currencies, such as the Deutschmark, supplanted local currencies in areas held by the Bosnian government. In April 1997 the presidential council agreed on a single currency, the konvertibilni marka (KM), for both the Muslim/Croat and Bosnian Serb parts of the country.

Bank privatization is problematic, but improving. Some of the state-owned banks targeted for privatization were actually privatized during the war. Many are considered insolvent, but in 2001, individual bank deposits in Federation banks were up 178%. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.3 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$2.2 billion.

### 34 INSURANCE

No recent information is available.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimates that in 1999 Bosnia and Herzegovina's central government took in revenues of approximately \$1.9 billion and had expenditures of \$2.2 billion. Overall, the government registered a deficit of approximately \$300 million. External debt totaled \$2.8 billion. The legacy of the planned economy has endured, effectively stifling the possibility for an economic rebuilding.

### 36 TAXATION

Current information is unavailable due to civil unrest.

### 37 CUSTOMS AND DUTIES

Bosnia has signed free trade agreements with Croatia, Serbia and Montenegro, and Slovenia. Tariff rates for imports from other countries are zero, 5% or 10%, depending on the good, with consumption and luxury goods generally receiving the higher rates.

### 38 FOREIGN INVESTMENT

Private investment plummeted during the civil war, when UN sanctions were in force. The conclusion of the Dayton Peace Accords in 1995 brought positive changes in the investment climate. In May 1998, a law on foreign direct investment (FDI) was passed and in June 1998, a law on privatization. While privatization of small and medium enterprises made good progress, the state of larger strategic firms has progressed more slowly. As of spring 2002, only 7 of 138 large state-owned enterprises had been sold and only 35% of the economy had been privatized. The largest foreign sale was the Zenica Steel Mill, which became the BH Steel Company in a joint venture with Kuwait Consulting and Investment Company (KCIC) in which both sides put up \$60 million (KCIC paid \$12 million in 1999 and took over \$48 million of debt).

In 1997, only \$1 million of FDI flowed into Bosnia and Herzegovina, but this jumped to \$54.6 million in 1998 and then to \$148.8 million in 1999. A decline occurred in 2001 to \$131.5 million (when riots broke out in two Republika Srpska towns over the rebuilding of mosques), but the numbers recovered to

\$164 million. The overwhelming majority of foreign investment into Bosnia and Herzegovina comes from aid groups and international financial institutions.

From 1994 to 2002, over half (55.5%) of FDI was in manufacturing, thanks primarily to the BH Steel Company venture. Banking has received 16.5% (mainly from Dubai, Austria and Croatia); services, 6.8%; trade, 6.2%; transport, 0.9%; and tourism, 0.7% (although bids were being requested on the Sarajevo Holiday Inn in summer, 2003). The following chart lists the amount of FDI inflow from the leading sources 1994–2002: Croatia, \$124 million; Kuwait, \$117 million; Slovenia, \$99 million; Germany, \$92 million; Austria, \$92 million; Serbia and Montenegro, \$69 million; Netherlands, \$62 million; Switzerland, \$48 million.

### 39 ECONOMIC DEVELOPMENT

As of 1997, the World Bank had spent only one-third of the \$1.8 billion it raised for Bosnia and Herzegovina because of repeated failures to institute economic reforms or honor the terms of the 1995 peace agreement. Economic assistance is expected to lay the groundwork for a revival of the economy. The actual distribution of assistance to particular entities or areas depends on compliance with the Dayton Accords, including the turnover of persons indicted for war crimes to the International Criminal Tribunal for the Former Yugoslavia. Into 2003, privatization and reconstruction were ongoing. Small-scale privatization has been completed, and large-scale privatization was underway in 2003. The absence of a single market in Bosnia and Herzegovina is an obstacle to economic development, as is the lack of legal certainty and a high degree of bureaucratization. A central bank was established in 1997, and a new currency launched in 1998. Successful debt negotiations have been held with the London Club and the Paris Club. A \$96 million stand-by arrangement with the International Monetary Fund (IMF) approved in August 2002 was due to expire in November 2003.

### 40 SOCIAL DEVELOPMENT

Social welfare systems have been in crisis since the wars of the 1990s. International efforts are in place to shift from humanitarian aid to a sustainable social welfare system. There is also an effort to reformulate disability pensions.

In both the Bosnian and Serb entities, the extent of legal and social discrimination against women varies by region. Women in urban areas pursue professional careers in such areas as law, medicine, and academia, while their rural counterparts are often relegated to the margins of public life. Violence against women remains underreported and there are accounts of police inaction in domestic situations. Maternity benefits are not always paid, and pregnant women and new mothers are recurrently dismissed without cause. Trafficking of women remains a significant problem.

All sides were guilty of human rights atrocities in the war and its aftermath. By 1995, it was estimated that up to two-thirds of the country's prewar population have become refugees or displaced persons. Women were targeted for cruel treatment during the war, and Serb forces systematically used rape as a tool to accelerate ethnic cleansing. The worst single incident of genocide in Europe since World War II occurred in the Bosnian "safe haven" of Srebrenica in 1995. Over 7,000 people are missing from Srebrenica, and are presumed dead.

Human rights abuses have continued in the political entities established by the 1995 Dayton Peace Accords. Discrimination and harassment of minority ethnic groups remain an huge problem in all regions. There are widespread reports of police brutality and corruption, and prison standards are poor.

## 41 HEALTH

There were over 200,000 war-related deaths in the 1990s (120,000 in 1992 alone) and many Bosnians were permanently disabled. Besides causing hundreds of thousands of deaths and injuries, the Bosnian war destroyed much of the health care infrastructure. Many hospitals were destroyed and infant mortality rates increased.

The total fertility rate, 4.0 in 1960, dropped to 1.6 in 2000. In the same year, average life expectancy was 73. In 2002 the birth rate was estimated at 13 per 1,000 people and the death rate was 8 per 1,000. The infant mortality rate was 13 deaths per 1,000 live births in 2000. In 1999, an estimated 83% of children under one had a measles vaccination and 90% of children were immunized for diphtheria. In 1999, there were 87 cases of tuberculosis per 100,000 people.

Salaries for health care providers are low, and medical equipment is outdated (20 years old on average). As of 1999, there were an estimated 1.4 physicians and 3.7 hospital beds per 1,000 people. In the same year, outpatient visits averaged 2.7 per person. Primary care is provided through health centers (*dom zdravlyas*) and outpatient branches called *ambulantas*. As of 1999 there were 87 *dom zdravlyas* in the Bosnian Federation, staffed by general practitioners and nurses, providing primary care, preventive care, health education, and rehabilitation. Among the secondary and tertiary care facilities in the Republika Srpska is one in Banja Luka that has 1,327 beds and one in Sarajevo with 776 beds. The country has five medical schools. As of 1999 public health expenditure was estimated at 8% of GDP.

As of 1999, HIV prevalence was 0.04 per 100 adults.

## 42 HOUSING

There is a chronic housing shortage in Bosnia and Herzegovina, since a majority of all homes, and even a few entire towns, were destroyed during the civil war from 1992–1995. Over two million people were forced from their homes during that time. With the help of international assistance programs, only about half of the nation's refugees and displaced residents were able to return to their homes by 2001. Many existing homes are still in serious need of repair and utilities are not always available.

## 43 EDUCATION

Before the Bosnian war of the early 1990s, the area covered by present-day Bosnia and Herzegovina had 641 primary and 243 secondary schools. By 1996, these totals had been reduced to 270 primary and 141 secondary schools. There were fewer than 200,000 primary pupils, taught by 8,000 teachers, and 65,500 secondary students, with 4,100 teachers.

Education is administered by the Ministry of Education, Science, Culture and Sports. Each of the country's ten cantons also has its own education ministry. Education at the elementary level is free and compulsory for eight years. At the secondary level, children have the option to take up general education (gymnasium), vocational, or technical. General secondary lasts for four years and qualifies the students for university education. In 2001 the government began a modernization program for primary and secondary education, covering curriculum, special needs education, in-service teacher training, and other areas.

There are four main universities: the University of Banja Luka (founded in 1975); the University of Mostar (founded in 1977); the University of Tuzla (founded in 1976); and the University of Sarajevo (founded in 1949), which offers programs in the social sciences, humanities, sciences, medicine, law, and engineering.

## 44 LIBRARIES AND MUSEUMS

Before the dissolution of the Yugoslav SFR, Sarajevo, as the capital, was an important center of cultural activity. Numerous historic sites have been damaged from the war, including the

National Library. In Banja Luka, there is an important university and public library founded in 1936, and holding 226,000 volumes with an impressive collection of Eastern manuscripts. The University of Sarajevo also housed an impressive library, but it was badly damaged during the civil war. The National Museum of Bosnia and Herzegovina has a library with 162,000 volumes.

Prior to the 1992 war, Sarajevo was a major cultural center in the Balkans. It still hosts nearly a dozen museums, including the Museum of the Old Orthodox Church, the Museum of Young Bosnia, the State Museum, and the Museum of the City of Sarajevo, as well as Bosnia's National Museum. In the provinces are the Museum of the National Struggle for Liberation in Jajce and the Museum of Herzegovina in Mostar.

The new constitution signed in Dayton, Ohio, on 21 November 1995, provides for freedom of speech and the press. However, the extreme ethnic segregation in various regions is reported to put the media in each area under considerable regional restrictions. The development of independent media is beginning to be implemented, through the sponsorship of private organizations, cultural societies, and political parties, along with Western aid organizations.

## 45 MEDIA

Due to recent government instabilities, statistics on media availability are difficult to maintain and so are subject to a wide margin of error. As of 1997, there were estimated to be over 303,000 main line telephones in use and 9,000 mobile cellular phones. In general, the telephone and telegraph network is in need of modernization and expansion. Service in many urban centers is said to be below the level of other former Yugoslav republics. As of 1999, there were 8 AM and 16 FM radio stations. In 1995, there were 33 television stations. In 1997 there were 248 radios and 41 television sets per 1,000 people. Most broadcasts are in Serbo-Croatian.

In Sarajevo, the daily newspaper *Oslobodjenje* (*Liberation*) managed to publish continuously throughout the siege of that city despite power and phone line outages, newsprint shortages, and direct attacks on its offices. Founded in 1943 as a Nazi resistance publication, *Oslobodjenje*, which is published in Serbo-Croatian, had a circulation of 56,000 in 2002. In 1993, two of its editors received international recognition from the *World Press Review*.

Online access is extremely limited. In 2000, there were 3 Internet service providers serving only about 3,500 Internet users.

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## 46 ORGANIZATIONS

The Bosnia and Herzegovina Chamber of Commerce promotes trade and commerce in world markets. There are over a dozen learned societies in Bosnia and Herzegovina. Research institutions in the country are concentrated in the areas of nuclear technology, meteorology, historical monument preservation, and language. Youth organizations include the Student Union of Bosnia and Herzegovina and scouting programs.

## 47 TOURISM, TRAVEL, AND RECREATION

Civil war has somewhat prevented the development of a tourism industry in Bosnia and Herzegovina. However, tourists are slowly beginning to return to the country. Especially to Sarajevo, the capital city, which was the site of the 1984 Winter Olympics. In 1999 there were about 89,000 tourist arrivals, with receipts

totaling US\$21 million. That year there were and estimated 1,275 hotel rooms.

According to the US Department of State, the cost of staying in Sarajevo in 2001 was about \$154 per day. Elsewhere, expenses may be lower.

#### 48 FAMOUS BOSNIANS AND HERZEGOVINIANS

Dr. Alija Izetbegović has been the president of Bosnia and Herzegovina since December 1991, and was named Chair after the 1996 elections in accordance with the new constitution. Dzemal Bijedjic (1917–1977) was a leader of Yugoslavia from 1971 until 1977, when he was killed in a plane crash. The 1914 assassination of the Austrian Archduke Franz Ferdinand in Sarajevo led to WW I.

#### 49 DEPENDENCIES

Bosnia and Herzegovina has no territories or colonies.

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# BULGARIA

Republic of Bulgaria  
*Republika Bulgariya*

**CAPITAL:** Sofia (Sofiya)

**FLAG:** The flag is a tricolor of white, green, and red horizontal stripes.

**ANTHEM:** *Bulgariya mila, zemya na heroj* (*Dear Bulgaria, Land of Heroes*).

**MONETARY UNIT:** The lev (LV) of 100 stotinki has coins of 1, 2, 5, 10, 20, and 50 stotinki and 1 and 2 leva, and notes of 1, 2, 5, 10, 20, 50, and 100 leva. Lv1 = \$0.5649 (or \$1 = LV1.77) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Labor Days, 1–2 May; Education and Culture Day, 24 May; Christmas, 24–25 December.

**TIME:** 2 PM=noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Part of the Balkan Peninsula, Bulgaria has an area of 110,910 sq km (42,822 sq mi), and extends 330 km (205 mi) N–S and 520 km (323 mi) E–W. Comparatively, the area occupied by Bulgaria is slightly larger than the state of Tennessee. Bulgaria is bounded on the N by Romania, on the E by the Black Sea, on the SE by Turkey, on the S by Greece, and on the W by Macedonia and Serbia and Montenegro, with a total boundary length of 1,808 km (1,123 mi).

Bulgaria's capital city, Sofia, is located in the west central part of the country.

## <sup>2</sup>TOPOGRAPHY

Bulgaria consists of a number of roughly parallel east-west zones. They are the Danubian tableland in the north, the Balkan Mountains (Stara Planina) in the center, and the Thracian Plain, drained by the Maritsa River, in the south. The Rhodope, Rila, and Pirin mountains lie in the southwestern part of the country. The average elevation is 480 m (1,575 ft), and the highest point, in the Rila Mountains, is the Musala, at 2,925 m (9,596 ft). The Danube (Dunav), Bulgaria's only navigable river, forms most of the northern boundary with Romania.

## <sup>3</sup>CLIMATE

Bulgaria lies along the southern margins of the continental climate of Central and Eastern Europe. Regional climatic differences occur in the Danubian tableland, exposed to cold winter winds from the north, and the Thracian Plain, which has a modified Mediterranean climate and is protected by the Balkan Mountains against the northern frosts. January temperatures are between 0° and 2°C (32–36°F) in the lowlands but colder in the mountains; July temperatures average about 22° to 24°C (72–75°F). Precipitation is fairly regularly distributed throughout the year and amounts to an average of 64 cm (25 in).

## <sup>4</sup>FLORA AND FAUNA

In the northeast lies the typical steppe grassland zone of the Dobrudja, merging into the wooded steppe of the Danubian

tableland. Most trees in this area have been cut down to make room for cultivated land. The Balkan Mountains are covered by broadleaf forests at lower altitudes and by needle-leaf conifers at higher elevations. The vegetation of the Thracian Plain is a mixture of the middle-latitude forest of the north and Mediterranean flora. Deforestation has reduced the amount of wildlife, which includes bears, foxes, squirrels, elks, wildcats, and rodents of various types. Fish resources in the Black Sea are not extensive.

## <sup>5</sup>ENVIRONMENT

Bulgaria's air pollution problem results from the combined influence of industry and transportation. In the mid-1990s, Bulgaria was among the 50 countries with the highest industrial emissions of carbon dioxide, producing 54.3 million metric tons, or 6.08 metric tons per capita. In 1996, the total was 55.2 million metric tons. Twenty-five percent of Bulgaria's forests have been significantly damaged by airborne pollutants. Only 4.5% of the country's total land area is protected. Bulgaria's rivers and the Black Sea are seriously affected by industrial and chemical pollutants, raw sewage, heavy metals, and detergents. However, nearly 100% of the population have access to safe drinking water. Industrial pollutants, especially from metallurgical plants, are responsible for damage to 115 sq mi of land in Bulgaria. Endangered species in Bulgaria include the Rosalia longhorn, Atlantic sturgeon, and slender-billed curlew. As of 2001, there were 13 mammal species, 12 bird species, 1 reptile species, and 59 plant species that were endangered.

## <sup>6</sup>POPULATION

The population of Bulgaria in 2003 was estimated by the United Nations at 7,897,000, which placed it as number 92 in population among the 193 nations of the world. In that year approximately 16% of the population was over 65 years of age, with another 16% of the population under 15 years of age. There were 94 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.85%, with the projected population for the year

2015 at 7,167,000. The population density in 2002 was 71 per sq km (183 per sq mi).

It was estimated by the Population Reference Bureau that 70% of the population lived in urban areas in 2001. The capital city, Sofia, had a population of 1,192,000 in that year. Other large cities include Plovdiv, 379,112; Varna, 316,231; Burgas, 211,580; Ruse, 192,365; and Stara Zagora, 164,553. According to the United Nations, the urban population growth rate for 2000–2005 was -0.1%.

## 7 MIGRATION

Emigration between 1948 and 1951 consisted mainly of Jews going to Israel and Turks going to Turkey. A high of 99,477 (of whom 98,341 were Turks) was reached in 1951. Most of the emigrants since the 1950s have been Turks bound for Turkey or other Balkan countries. A total of 313,894 emigrated to Turkey in 1989 because of government persecution. Some were forcibly expelled. More than 100,000 had returned to Bulgaria by February 1990. Meanwhile, about 150,000 ethnic Bulgarians also emigrated. In 1991 about three million Bulgarians were living abroad, including 1,200,000 in the former Yugoslavia, 800,000 in other Balkan countries, and 500,000 in the former USSR.

The net migration rate for 2000 was -4.9 migrants per 1,000 population. As of that year, there were 1500 refugees and about 1760 registered asylum seekers in Bulgaria. Most of the refugees and asylum seekers were from Afghanistan, Iraq, Serbia and Montenegro, and Armenia. Bulgaria remains an emigration country, although the number departing has been on the decline in recent years. The majority of those leaving Bulgaria are moving to Belgium, Germany, the Netherlands, Spain, Greece, and North America. The number of illegal foreigners in Bulgaria is low. Due to the high unemployment rate, there are serious restrictions on foreign workers.

## 8 ETHNIC GROUPS

In 1998, Bulgarians accounted for an estimated 84% of the total population. The Turks, who constituted about 10% of the total, are settled mainly in the southern Dobrudja and in the eastern Rhodope Mountains. Between December 1984 and March 1985, the government compelled ethnic Turks and Pomaks (Bulgarian Muslims) to abandon their Turkish and Muslim names and to adopt Bulgarian and Christian ones. This action was reversed in 1990. Other groups make up the remaining 6% of the populace. The number of Gypsies is estimated at 450,000–700,000 and the number of Pomaks, 150,000–300,000. Macedonians live mainly in the Pirin region of southwestern Bulgaria. Romanian-speaking Vlachs live in the towns and countryside of northwestern Bulgaria. Greek-speaking Karakatchans are nomadic mountain shepherds of Romanian origin. The Gagauzi of northeastern Bulgaria are a Turkish-speaking group of Christian Orthodox religion. Bulgaria's cities have small minorities of Russians, Jews, Armenians, Tatars, and Greeks.

## 9 LANGUAGES

Bulgarian is classified as a Slavic language of the southern group, which also includes Macedonian, Serbo-Croatian, and Slovenian. Old Bulgarian, also known as Old Church Slavonic, was the first Slavic language fixed in writing (9th century). For this purpose, two Bulgarian monks, Cyril and Methodius, created a new alphabet, based partly on the Greek, that became known as the Cyrillic alphabet. Both the grammar and the vocabulary of modern Bulgarian show Turkish, Greek, Romanian, and Albanian influences.

In November 1991, the government made Turkish an optional subject four times weekly in schools in predominantly Turkish regions.

## 10 RELIGIONS

According to a 2001 study, about 84% of the population belongs at least nominally to the Bulgarian (Eastern) Orthodox Church, now considered the traditional religion of the state. There are also an estimated 12% who are Muslims. A 1998 study placed other religious affiliation at 1.5% Roman Catholic, 0.8% Jewish, 0.2% Uniate Catholics, and 0.5% Protestants, Gregorian-Armenians, and others.

After seizing power in 1946, the Communist regime eliminated its opponents from among the clergy. The government, whose aim was eventually to establish an atheistic society, sought during the ensuing period to replace all religious rites and rituals with civil ceremonies. The new constitution of 1991, however, guarantees freedom of religion to all. Diplomatic relations with the Vatican had already been established in 1990. The constitution provides for religious freedom; however, the government restricts this right in practice for some non-Orthodox religious groups. The law requires religious groups to register with the Council of Ministers; this requirement presents an obstacle to activity for some religious groups. Such lack of registration presented an obstacle for Jehovah's Witnesses early in 1998. In some cases local authorities have used lack of registration as a pretext for interference and employment of arbitrary harassment tactics against some groups. In 1998 a small number of religious groups continued to come under attack and were unable to conduct services freely; such reports ceased by 1999.

## 11 TRANSPORTATION

The Bulgarian Railway Company (BDZ) oversees Bulgaria's railway system. Railroads are still the basic means of freight transportation in Bulgaria. Of the 4,292 km (2,667 mi) of railroad lines in use in 2002 about 94% were standard gauge.

In 2002, roadways extended for 37,288 km (23,171 mi), of which 33,786 km (20,995 mi) were paved, including 324 km (201 mi) of expressways. Road transportation has grown steadily in recent years. Bulgaria has many highway projects underway, including portions of the Trans-European Motorway (TEM), a route connecting Budapest with Athens via Vidin and Sofia and with Istanbul via eastern Bulgaria.

Water transportation is also significant. As of 2002, Bulgaria's maritime fleet was comprised of 77 ships with a total capacity of 881,758 GRT, as compared with 97,800 GRT in 1961. The major seaports are Burgas and Varna; principal river ports are Ruse, Lom, and Vidin.

In 2001 there were 215 airports, 128 of which had paved runways. Sofia's Vrazhdebna Airport is the major air center, but there are also international airports at Varna and Burgas, as well as seven domestic airports. Initially a joint Soviet-Bulgarian concern, Bulgarian Airlines (BALKAN) passed into Bulgarian hands in 1954. Civilian airlines in Bulgaria carried 234,000 passengers on scheduled domestic and international airline flights in 2001.

## 12 HISTORY

The Bulgarians have inhabited their present homeland for 13 centuries. They represent a merger of Bulgar invaders and local Slavic tribes, which occurred in the 7th century. From the Slavs, who had migrated to the Balkans from the area north of the Carpathian Mountains in the 6th century, the Bulgarians received their language and cultural roots. From the Bulgars, a Central Asian Turkic tribe that had crossed the Danube in 679 to settle permanently in Bulgarian territory, the Bulgarians received their name and initial political framework.

The early Bulgarian state, which had adopted Christianity in 865, asserted itself against the Byzantine Empire and reached its greatest territorial extent under Simeon I (r.893–927), but by



LOCATION: 41°14' to 44°13' N; 22°22' to 28°37' E. BOUNDARY LENGTHS: Romania, 608 kilometers (378 miles); Black Sea, 354 kilometers (220 miles); Turkey, 240 kilometers (149 miles); Greece, 494 kilometers (307 miles); Macedonia, 148 kilometers (92 miles); Serbia and Montenegro, 318 kilometers (198 miles). TERRITORIAL SEA LIMIT: 12 miles.

1018 it had again fallen under Byzantine dominance. Bulgaria rose again as a major Balkan power in the 12th and 13th centuries, especially under Ivan Asen II (r.1218–41), who had his capital at Turnovo. By the end of the 14th century, Bulgaria was overrun by the Ottoman Turks, who ruled the country until 1878.

Through Russian pressure, the Treaty of San Stefano (3 March 1878) provided for the virtual independence of Bulgaria. This was somewhat curtailed by the Congress of Berlin (June–July 1878), which gave northern Bulgaria the status of an independent principality under Turkish suzerainty, with its capital at Sofia. Southern Bulgaria (then known as Eastern Rumelia) remained under Turkish rule as an autonomous province. A military coup in 1885 annexed Eastern Rumelia to Bulgaria. Stefan Stambolov,

premier from 1887 to 1894, consolidated the country's administration and economy. In 1908, Bulgaria declared itself a kingdom completely independent of Turkey, and the ruling Bulgarian prince, Ferdinand of Saxe-Coburg-Gotha, assumed the title of tsar. Bulgaria joined the anti-Turkish coalition (consisting of Greece, Montenegro, and Serbia) in the First Balkan War (October 1912–May 1913), gaining its long-desired outlet to the Aegean Sea. But as a result of a dispute over Macedonia, Bulgaria became pitted against Greece, Romania, Serbia, and Turkey in the Second Balkan War (June–July 1913) and was defeated. The Treaty of Bucharest (10 August 1913) deprived Bulgaria of southern Dobrudja and a large part of Macedonia. Having sided with the Central Powers in World War I, Bulgaria also lost its outlet to the Aegean Sea through the Treaty of Neuilly (27

November 1919). By this time, Ferdinand had abdicated in favor of his son, Boris III, who ruled Bulgaria until his death in 1943. After an early period of stability and initial progressive reform under the leadership of Premier Alexander Stamboliski (assassinated 1923), growing political rivalries led to the introduction of authoritarian institutions; King Boris established a military government in 1934 and then personally assumed dictatorial powers in 1935.

When World War II broke out, Bulgaria moved toward an alliance with Germany in the hope of recovering lost territories. In 1940, Romania was forced to return southern Dobrudja, and during the war Bulgaria occupied Macedonia and western Thrace on the Aegean Sea. In September 1944, Soviet troops crossed the Danube and entered the country. At that time, the Bulgarian government severed relations with Germany and intended to sign an armistice with the Western Allies, but Moscow declared war on Bulgaria. A coalition government—the Fatherland Front (Otechestven Front)—was established, which, with the assistance of the Soviet army, came under the domination of the Communist Party. Subsequently, anti-Communist political elements were purged.

Elections for a national government, held in November 1945, were protested by the Western powers. The following September, a plebiscite replaced the monarchy with the People's Republic of Bulgaria. The 1947 peace treaty formally ending Bulgaria's role in World War II allowed the nation to keep southern Dobrudja and limited the size of its armed forces, but the latter provision was later violated. A new constitution in 1947 instituted the nationalization of industry, banking, and public utilities and the collectivization of agriculture, each program following the Soviet pattern. Centralized planning was introduced for the development of the national economy through a series of five-year plans that from the outset stressed the expansion of heavy industry. Subsequently, Bulgaria joined the Warsaw Pact and CMEA, thus placing itself firmly within the Soviet bloc.

After the Soviet-Yugoslav rift of 1948, a large-scale purge was carried out inside the Communist ranks to expel "nationalist" elements led by Traicho Kostov, who was executed in December 1949. Thereafter, the Bulgarian government remained unquestionably loyal to Moscow and was unaffected politically or ideologically by the upheavals in Poland and Hungary in 1956 or the events that precipitated the Soviet invasion of Czechoslovakia in 1968. In the 1970s, Bulgaria sought to improve relations with neighboring Greece. Relations with Yugoslavia, however, remained strained because of Bulgaria's historic claims on Macedonia.

Todor Zhivkov, first secretary of the Communist Party since 1954 and president since 1971, was by the mid-1980s one of the longest-ruling Communist leaders in the world. A cultural "thaw" took place in the late 1970s, under the leadership of Zhivkov's daughter, Lyudmila Zhivkova, who was closely involved in organizing the commemoration of what was claimed to be the 1,300th anniversary of the foundation of the Bulgarian state; she died in December 1981, two months before the celebration. In late 1982 and 1983, Bulgaria became a center of international attention because of allegations by Italian investigators that Bulgarian agents were involved in the attempted assassination of Pope John Paul II at the Vatican on 13 May 1981. In March 1986, however, an Italian court ruled that the evidence was insufficient to prove that Bulgaria had ordered or was involved in the assassination attempt. The 1984–85 campaign of forcible assimilation of ethnic Turks allegedly resulted in more than 1,000 deaths.

A program of far-reaching political and economic changes was announced in July 1987, including an administrative overhaul that was expected to reduce the number of Communist Party functionaries by as much as two-thirds, the introduction of self-

management for individual enterprises, and liberalization of rules for joint ventures with foreign investors.

The radical changes which Mikhail Gorbachev was introducing in the Soviet Union, long Bulgaria's traditional "elder brother," encouraged reformist elements within the Bulgarian Communist Party, who were growing increasingly restive under Zhivkov. The long-time ruler, however, resisted attempts to change, and moved into a pattern of direct confrontation with Petar Mladenov, his Foreign Minister. Mladenov, who had close ties to Gorbachev, wanted to change Bulgaria's image, but Zhivkov's intensifying efforts to "assimilate" the country's ethnic Turks or, if that failed, to force them to emigrate, only reinforced international antipathy. Finally, in November 1989, Mladenov and other opposition figures were able to take advantage of an international environmental conference convened in Sofia to press for Zhivkov's resignation. When Defense Minister Dobri Dzhurov agreed to support Mladenov, Zhivkov was forced to resign.

Mladenov had intended to reform the Communist Party, not remove it from power, but the tide of popular sentiment ran against him. Coordinated by an umbrella opposition group called the Union for Democratic Reform, huge pro-democracy rallies gathered in the capital, demanding an end to the Communist monopoly on power, and calling for elections.

The Communists attempted to meet these demands by increments, first relinquishing their constitutional exclusivity, then ending Zhivkov's program of forced assimilation, and finally changing its name to Bulgarian Socialist Party. However, the opposition, now known as the Union of Democratic Forces (UDF), continued to insist on new elections, which were held in June 1991.

In something of a surprise, the Socialists received nearly 53% of the vote, while the UDF got only about a third; the rest of the votes went to the Movement for Rights and Freedoms, which represents the interests of the country's one million Turks. However, because the Socialists' votes came almost entirely from the countryside, while those of the UDF came from the city, the UDF decided to remain in opposition, and not enter any coalition. The Socialists' ability to form a government was further weakened by popular hostility to Mladenov, who was forced to resign about a month after the election.

However, because the Communists remained generally in charge of the government, very little reform was realized, and Bulgaria's economy continued to decline. In addition, a great deal of effort was devoted to the attempt to prosecute Zhivkov and his prominent cronies for malfeasance, incompetence, and other failings. Zhivkov fought back vigorously, exposing the sins of former colleagues who had remained in power. Although convictions were eventually obtained (in 1992, with additional charges brought in 1993), the exercise served to undermine public sympathy for the Socialists. That opened the way for the National Assembly to appoint Zhelyu Zhelev president. Leader of the UDF, Zhelev had spent 17 years under house arrest. The Socialists continued to have problems forming a government, however. Their first attempt, led by Prime Minister Andrei Lukanov, a Mladenov ally, collapsed after a few months; in December 1990 the replacement government of Dimitar Popov, an unaffiliated technocrat, outlined an ambitious program of economic reform.

The National Assembly passed a new constitution in July 1991, making Bulgaria the first of the Eastern Bloc countries to adopt a new basic law. Among other things, this document called for new parliamentary elections, to be held in October 1991; another provision reduced the number of seats in the Assembly from 400 to 240, guaranteeing a wide-open election.

A form of proportional list voting was used, but a threshold of 4% to receive seats was set, in order to eliminate fringe parties. As a result, the same three parties were represented, although

now in different proportions. The UDF received 34%, the Socialists 33%, and the MRF got 8%. The UDF adamantly refused to cooperate with the former Communists, instead taking as their coalition partners the Turks, who exacted a high price for their agreement.

Bulgaria's first non-Communist government since World War II was led by Filip Dimitrov, of the UDF; however, most of his ministers were chosen for technical expertise, rather than party affiliation. Sixty percent of the members of Dimitrov's cabinet were drawn from outside the National Assembly. Dimitrov undertook an ambitious program of economic and political transformation, although he was somewhat hampered by the necessity to obtain cooperation of the Socialists for any measures requiring constitutional changes, since those changes need a two-thirds majority vote of the Assembly.

Although it basically continued to perform poorly, the economy showed enough change to give Zhelev 45%, the greatest part of the popular vote, when direct presidential elections were held in January 1992. However, his Socialist opponent, Velko Vulkanov, received 30%, indicating how closely the electorate was divided.

Bulgaria's economy, left in poor condition by Zhivkov, continued to deteriorate. The consequential increased pressure on the government exposed strains within the ruling UDF. In late 1992 the Dimitrov government was replaced by a minority coalition of the Socialists and the MRF, with some defecting UDF deputies, led by Lyuben Berov. Widely seen only as a caretaker prime minister meant only to take the country up to new elections, Berov defied predictions, remaining in power for more than 15 months.

However, surviving in power was the limit of the Berov government's achievements. The UDF majority in the Assembly was unrelenting in its hostility to Berov, whom it accused of trying to "re-communize" Bulgaria. The UDF submitted as many as six votes of no confidence in a single year. In April 1994, President Zhelev announced that he no longer had confidence in Berov, but because the constitution denied him the power to dissolve the government, Berov was able to keep his cabinet in position, dependent upon the support of the minority Socialists and MRF. This increasing political deadlock and the continued deterioration of Bulgaria's economy led to new parliamentary elections in 1994.

Bulgarians, hostile to the UDF, gave the Bulgarian Socialist Party (BSP), heir to the Communist Party, and two nominal coalition partners an absolute majority in elections in December. However, under the leadership of Prime Minister Zhan Videnov, the BSP government failed to move forward with economic reforms and by the end of 1996 the economy was in crisis with inflation at 300%, corruption rampant, and average wages at only US\$30 a month. Bulgaria had sunk below Albania as the poorest country in Europe. Popular support for the Socialists had dropped to 10% and change was inevitable.

In the November 1996 presidential elections, Petar Stoyanov of the UDF was elected president by a wide margin over Socialist party candidate Ivan Marazov. Faced with a worsening economy and approval ratings of just 10%, Socialist Prime Minister Zhan Videnov resigned one month later. Retiring President Zhelev, a member of the opposition party, refused to allow the Socialists to form a new government. Without a stable government and with their economy in free fall, Bulgarians demonstrated in the capital for new parliamentary elections. The newly elected president, Petar Stoyanov, took office on 19 January 1997 and immediately called for elections. The new elections, held in April, were won by a four-party alliance anchored by the Union of Democratic Forces. UDF leader Ivan Kostov, a former finance minister, became the alliance's nominee for prime minister. The new government quickly instituted economic reforms, passed a tough budget, and clamped down on crime and corruption. The

economy began to stabilize and popular discontent began to subside. New IMF loans were approved, and the government embarked on a campaign to attract foreign investment and speed up privatization. Stoyanov retained his popular support over the succeeding years, as the economy continued to improve and the government increasingly embraced the West, declaring its interest in eventual EU and NATO membership, and allowing access to its airspace during the NATO bombing of Serbia in the spring of 1999. The battle against entrenched political corruption continued through 1999 and 2000 and included the dismissal of top government officials.

In April 2001, former king Simeon II established a political party, the National Movement for Simeon II (NDS), pledging to fight corruption, improve the economy, and improve Bulgaria's chances for EU membership through deregulation and privatization. The party won 120 of 240 seats in parliament in the 17 June 2001 elections, and Simeon Saxe-Coburg became prime minister. He is the first monarch in any Eastern European country to win political office since communism collapsed in the early 1990s. Simeon Saxe-Coburg claimed his party's intent was not to restore the monarchy, but to move ahead with reforms. However, in November thousands of protesters took to the streets of Sofia, dissatisfied with Simeon II's lack of progress on improving the economy and living standards. The NDS established a coalition with the political party of the Turkish minority, the Movement for Rights and Freedom (DPS), the first time that ethnic Turks would be representatives in Bulgaria. Turks make up about 10% of the population.

In presidential elections held on 11 and 18 November 2001, Georgi Parvanov of the Bulgarian Socialist Party and candidate for the Coalition for Bulgaria alliance beat incumbent Petar Stoyanov for the presidency, winning 54% of the vote in the second round to Stoyanov's 46% (in the first round, Parvanov took 36.4% of the vote to Stoyanov's 34.9%). Turnout in the first round was only 41%; in the second round it was 55%. Stoyanov declared he would retire from politics.

In November 2002, NATO officially invited Bulgaria to join the organization, one of 7 Eastern European nations to join in 2004. Also in 2002, the EU announced that Bulgaria was not ready to become a member in the next round of EU enlargement taking place in 2004; Bulgaria and Romania are expected to join in 2007.

### 13 GOVERNMENT

The constitution of July 1991 provides for a presidential-parliamentary form of republican government, in which no party enjoys constitutional primacy. Importantly, the document provides clear-cut distinctions among the legislative, executive, and judicial branches of government.

The president, who is chief of state, is popularly elected to a five-year term with a maximum of two terms. Among his duties is the naming of the prime minister, who must be confirmed by the National Assembly. The emerging tradition is that the president sets the overall direction of policy, while the prime minister and his cabinet, presently 14 people, are responsible for day-to-day implementation.

The legislative branch of government is the National Assembly, with 240 members elected to four-year terms. Deputies are elected on a proportional voting basis, in which parties must receive at least 4% of the total national vote in order to receive seats.

### 14 POLITICAL PARTIES

Bulgaria did not develop the welter of political parties which most of the other post-Communist societies have enjoyed—or suffered. The fact that Bulgaria's "velvet revolution" was a two-stage affair, the first part of which was an internal coup within the Communist party, left the communists, particularly the

reformist wing, with strong public support. Renamed the Bulgarian Socialist Party (BSP) in 1990, the party did surprisingly well in the 1991 elections, gaining 53% of the vote. In 1994 they won a majority in the parliamentary elections, but fell out of favor after two years of particularly disastrous economic policies that reduced their popular support to 10% by the end of 1996. Their candidate for the Presidency, Ivan Marazov, received 38.9% of the vote in the November 1996 election compared to UDF candidate Peter Stoyanov's 61.1%. Facing an angry electorate and unable to form a new government, their prime minister, Zhan V. Videnov, resigned a month later. In the April 1997 parliamentary elections that followed, they lost power altogether, winning only 58 seats in Bulgaria's 240 seat parliament.

The largest vote-getter with 137 seats was the Union of Democratic Forces (UDF), a collection of 15 previously independent groups. Its leader, Ivan Kostov, a former finance minister termed forceful by some and arrogant by others, became his party's nominee for prime minister. The UDF formed an alliance with several smaller parties and called itself the United Democratic Forces (ODS). Their victory was tempered by the fact that only 59% of the electorate came to the polls.

The Movement for Rights and Freedoms (DPS) took 19 seats with 7.6% of the vote. The DPS primarily represents the interests of Bulgaria's large Turkish minority (about 10% of the population), which was subjected to savage, even bloody repression, during the Zhivkov years, and which still excites much nationalist antipathy among many Bulgarians. The economic crisis caused by the Socialists disproportionately affected the employment of people from ethnic minorities.

Euroleft, a small party of former Socialists, won 5.5% of the vote and took 14 seats in the parliament. The Bulgarian Business Block won 4.9% of the vote and the remaining 12 seats.

In April 2001, the National Movement for Simeon II (NDS) was formed. Owing to voter disillusion with corruption and high unemployment, the UDF lost the June 2001 parliamentary elections to the NDS, and former king Simeon II (Saxe-Coburg) became prime minister. His advisors have experience with Western finance, but were inexperienced in government. The distribution of seats in the National Assembly following the 17 June 2001 elections was as follows: NDS, 120 seats; ODS, 51 seats; Coalition for Bulgaria (a coalition lead by the BSP), 48 seats; and the DPS, 21 seats. As of the end of 2002, the Saxe-Coburg government was criticized for not raising living standards and for not making enough progress on fighting corruption, and it lost seats in the National Assembly. Seating as of March 2003 was: NDS, 110; ODS, 50; Coalition for Bulgaria, 48; DPS, 20; and 12 independents. The next parliamentary elections are due in mid-2005, and presidential elections are due in November 2006.

## 15 LOCAL GOVERNMENT

Bulgaria is divided into 28 provinces (oblasti). There are 262 municipalities, each of which is governed by a mayor and an elected council. Much of the country is rural, with a strong peasant culture. Bulgaria is currently undergoing a process of decentralization, which will better prepare it for accession to the EU.

## 16 JUDICIAL SYSTEM

The 1991 constitution provides for regional courts, district courts, a Supreme Court of Cassation, which rules on decisions by the lower courts, and a Supreme Administrative Court, which rules on the legality of actions by institutions of government. A Constitutional Court is responsible for judicial review of legislation and for resolving issues of competency of the other branches of government as well as impeachments and election law. Judges are appointed by the Supreme Judicial Council. The

Constitutional Court has 12 judges appointed to a nine-year term by the National Assembly, the president and judicial authorities.

Military courts handle cases involving military personnel and national security issues. Under the 1991 constitution, the judiciary is independent of the legislative and executive branches. The trials are public. Criminal defendants have the right to confront witnesses, the right to counsel, and the right to know the charges against them to prepare their defense. The constitution prohibits arbitrary interference with privacy, home, or correspondence.

Bulgaria accepts compulsory jurisdiction of the International Court of Justice.

## 17 ARMED FORCES

The armed forces of Bulgaria consist of 68,450 active personnel with reserves numbering 303,000. In 2002 the army numbered 31,050, the navy some 4,379 and the air force 17,780. Equipment included 1,475 main battle tanks and 232 combat aircraft. There were 34,000 members of the paramilitary, including border guards, security police, and railway and construction troops. Bulgaria participates in two peacekeeping missions abroad. Defense expenditures were \$356 million in 2002 or 2.7% of GDP.

## 18 INTERNATIONAL COOPERATION

Bulgaria joined the UN on 14 December 1955 and participates in the ECE and all the non-regional specialized agencies. It belongs to the WTO, and is a signatory of the Law of the Sea, and has applied for EU membership. Since the early 1970s, the Bulgarian government has tried to improve relations with other Balkan states. In 1971, a consular agreement was reached with Turkey. Bulgaria signed consular and cultural agreements with Greece in 1973, and a declaration of friendship and cooperation in 1986. A Bulgaro-Yugoslav Economic Chamber was set up in 1982 to promote mutual trade. In November 2002, Bulgaria was invited to join NATO, and is to be admitted in 2004.

## 19 ECONOMY

Before World War II, Bulgaria was an agricultural country, consisting mainly of small peasant farms; farming provided a livelihood for about 80% of the population. After the war, the Communist regime initiated an industrialization program. By 1947, a sizable portion of the economy was nationalized, and collectivization of agriculture followed during the 1950s. Until 1990, the country had a centrally planned economy, along Soviet lines, and its sequence of five-year economic plans, beginning in 1949, emphasized industrial production. In 1956, according to official Bulgarian statistics, industry contributed 36.5% of national income, and agriculture and forestry, 32.9%; in 1992, the respective contributions were 42.5% and 12%.

Although Bulgaria has brown coal and lignite, iron ore, copper lead, zinc, and manganese, it lacks other important natural resources and must export in order to pay for needed commodities. Because it relied on the USSR and other CMEA countries for essential imports and as the major market for its exports, and lacks foreign exchange, the Bulgarian economy was greatly influenced by the breakup of the Soviet bloc and the switch to hard-currency foreign trade. In the 1970s, the economic growth rate was quite high (6.8% annually), but the pace of growth slowed in the 1980s, mainly because of energy shortages. The average annual growth rate was only 2% in that decade.

With the disintegration of Soviet-bloc trade and payments arrangements, GDP declined by about 10% in 1990, 13% in 1991, 8% in 1992, and an estimated 4% in 1993. Meanwhile, Bulgaria began an economic reform program supported by the World Bank and IMF. But the economy remained largely state controlled, although there was progress in privatizing many smaller enterprises. The private sector accounted for only about

20% of GDP in 1993 and 45% in 1996. Efforts at economic reform stalled in 1994 as the Socialist government again failed to privatize state owned industries and institute structural reforms aimed at creating a market economy. The economy was further plagued by wide scale corruption among businessmen from the former Communist Party who stripped state enterprises of their assets and transferred the funds out of the country. By 1997, the Bulgarian economy was at the brink of collapse with inflation at 300%, the banking system in chaos, and the government on the verge of bankruptcy. Bulgaria became the poorest country in Europe with average monthly wages of \$30 a month.

Angry with the governing Socialists, tens of thousands of Bulgarians demonstrated in the capital calling for early elections. In April of 1997 a new government took power and instituted structural reforms designed to bring order to the economy. The government of Prime Minister Ivan Kostov, quickly moved to implement market reforms. While operating under the direction of an IMF currency board, Bulgaria pegged the lev to the deutschmark (and now also to the euro), and reduced inflation to 1%. In 1997, the private sector accounted for 65% of GDP. This milestone marked the first time in the post-communist era that the private sector outperformed the public sector in production. In addition to structural reforms, the Kostov government also moved to combat corruption by becoming the first non-OECD country to ratify the anti-bribery convention.

As of 2003, industry increasingly was being privatized, and agriculture was almost completely privatized. Bulgaria started accession talks with the EU in 2000, but was not one of 10 new countries formally invited to join the body in December 2002. If Bulgaria completes its accession requirements, it is expected to join the EU in 2007, along with Romania. Bulgaria's laws are being harmonized with EU laws, and customs barriers between them are breaking down. By the end of 1999, more than 50% of Bulgaria's exports went to EU nations.

Following the 2001 elections that brought Simeon Saxe-Coburg to office as prime minister, the stock market soared 100%, but the government in 2002 was unable to live up to its pledge to improve living standards. Foreign direct investment rose modestly in 2002, and although economic growth slowed that year from its 5.8% high in 2000, it was higher than that of many other European countries. Tourism was strong in 2002, and although the weather was poor that year, Bulgaria's agricultural sector performed well. Taxes were lowered, and there is a zero percent capital gains tax on stock market investments. Small businesses are increasingly receiving credit. Corruption, however, remains a stumbling block to Bulgaria's economic success.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Bulgaria's gross domestic product (GDP) was estimated at \$50.6 billion. The per capita GDP was estimated at \$6,600. The annual growth rate of GDP was estimated at 3.4%. The average inflation rate in 2002 was 5.9%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 14% of GDP, industry 29%, and services 58%. Foreign aid receipts amounted to about \$43 per capita and accounted for approximately 3% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$1,225. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 7%. Approximately 30% of household consumption was

spent on food, 17% on fuel, 8% on health care, and 11% on education. The richest 10% of the population accounted for approximately 22.8% of household consumption and the poorest 10% approximately 4.5%. It was estimated that in 2000 about 35% of the population had incomes below the poverty line.

## 21 LABOR

In 2000, total employment amounted to an estimated 3.83 million. As of 1998, 26% of workers were in agriculture, with 31% in industry and the remaining 43% in service. Unemployment was estimated at 18% in 2002.

The constitution guarantees the right of all to form or join trade unions of their own choosing. Bulgaria has two large trade union confederations, the Confederation of Independent Trade Unions of Bulgaria (CITUB), and Podkrepa, which collectively represent the vast majority of unionized workers. The labor code recognizes the right to strike when all other means of conflict resolution have been exhausted. Essential employees are forbidden to strike and political strikes are prohibited as well.

Minimum age for employment is 16 years, with 18 years the minimum for hazardous work. In the formal sector these regulations are generally observed, but in certain industries, family operations, and illegal businesses, children are exploited. The law establishes a standard workweek of 40 hours with at least one 24-hour rest period per week. The minimum wage was about \$47 per month as of 2002. Minimum health and safety standards exist and are effectively enforced in the public sector, but not effectively enforced in the largely unregulated and often informal private sector.

## 22 AGRICULTURE

In 1998, the total arable land area covered 4,511,000 ha (11,150,000 ac), of which 4,312,000 ha (10,650,000 ac) were seasonal crops and 199,000 ha (492,000 ac) were permanent crops. The average annual agricultural growth rate was -2.1% for 1980-90 and -0.4% for 1990-2000. By 2000, agricultural output was only two-thirds of what it was in 1990. In 2000, agriculture accounted for 15% of GDP. That year agriculture (including fishing and forestry) engaged about 7.5% of the economically active population.

Collectivized agriculture became the norm under the Communist government after 1958. In March 1991, the government adopted a land law which restored ownership rights to former owners of expropriated land. These owners were to receive 20-30 ha (49-74 ac) each of land approximating the type and location of the former holdings, regardless of whether or not the owner cultivates that land. After February 1991, full price liberalization for producers and consumers was to occur. However, the agricultural sector was still shrinking due to the lack of progress in the implementation of privatization and property restitution. A grain crisis developed when Bulgaria exported a million tons of wheat in 1995. Currency depreciations, increased taxes, and lack of funds exacerbated the disintegration of the agricultural sector in the mid-1990s.

The principal grain-growing areas are the Danube tableland and southern Dobrudja. The production of major crops in 1999 (in thousands of tons) was wheat, 3,000; corn, 1,100; barley, 700; sunflower seeds, 500; and soybeans, 5.

Bulgaria is a major supplier of grapes, apples, and tomatoes to Europe and the former Soviet Union. Potatoes and paprika are also important crops. Production in 1999 included (in thousands of tons): grapes, 550; apples, 150; tomatoes, 490; and potatoes, 478. About 52,000 tons of tobacco were also produced that year.

Machinery available to agriculture has increased significantly. Tractors rose from 25,800 units in 1960 to 53,800 units in 1985, before falling to 25,000 in 1998; combines increased from 7,000 to 16,000 in 1985, but by 1998 numbered only 5,500 in use. About 18% of the cultivated area is irrigated.

## 23 ANIMAL HUSBANDRY

Meadows and pastures make up about 18% of the total land area. Bulgaria had 2.8 million sheep, 14 million chickens, 1.7 million hogs, one million goats, 671,000 cattle, 225,000 donkeys, and 126,000 horses in 1999. Meat production (in carcass weight) in 1999 amounted to 488,000 tons. In the same year, the country produced 1.38 million tons of milk and 93,000 tons of eggs.

## 24 FISHING

Fishing resources in the Black Sea are less than abundant. Before 1960, the annual catch was slightly above 5,000 tons. Fishing output reached a high of 167,100 tons in 1976, then fell to 115,607 tons in 1982. In 2000, the total catch was 6,998 tons. Sea snails accounted for about 54% of the catch. Fishing vessels are based at the ports of Varna and Burgas, where the government built canning and processing plants.

## 25 FORESTRY

Forests cover 3,240,000 ha (8,006,000 acres), or 29% of Bulgaria's territory. About 80% of the total forest area is wooded forest land. Forests are about 34% coniferous and 66% deciduous, and mainly occupy regions of higher altitudes. Over half of the forests in Bulgaria are situated on slopes of over 20°, making harvesting and reforestation very difficult. The principal lumbering areas are the Rila and western Rhodope Mountains in the southwest and the northern slopes of the Balkan Mountains in the center. Forestry and the forest industry contribute about 2% to the GDP.

Intensive exploitation and neglect before and during World War II (1939–45) and even more intensive exploitation following the war contributed to the deterioration of the forests. So during 1945–65, 860,000 ha (2,125,000 acres) were reforested; the 20 year plan (1961–80) called for the planting of 1.4 million ha (3.5 million acres). During the 1980s, annual reforestation averaged 50,000 ha (123,500 acres). Despite the intensive harvesting during 1950–73 (which exceeded the government's Forest Management Plan—FMP), the total timber volume has increased from 165 million cu m (5.8 billion cu ft) in 1934 to 404 million cu m (14 billion cu ft) in 1995. The FMP decreased the amount of timber permitted to be cut from 6.8 million cu m (240 million cu ft) in 1955 to 6.2 million cu m (219 million cu ft) of roundwood in 1995 because fewer large trees are available. Roundwood production has decreased from 8.6 million cu m (304 million cu ft) in 1960 to 14.8 million cu m (522 million cu ft) in 2000. Forestry exports in 2000 totaled \$99.1 million. Bulgaria exports logs to Turkey, Greece, Italy, and Macedonia; veneer to Greece and Syria; and particleboard to Greece, Macedonia, and Egypt. The main problems prohibiting greater roundwood production are diseases, drying of trees, and pests. Acid rain and heavy metals have not hurt the local forests. In 1998, the government began a forestry restitution and privatization program covering 3.6 million ha (8.9 million acres).

## 26 MINING

Bulgaria was an important regional producer of nonferrous metal ores and concentrates, and was mostly self-sufficient in mineral requirements. Mining and metalworking in the region was well documented by Roman times, when Bulgaria and Romania, known respectively as Thrace and Dacia, were important sources of base and precious metals. Small quantities of bismuth, chromite, copper, gold, iron, lead, magnesite, manganese, molybdenum, palladium, platinum, silver, tellurium, tin, uranium, and zinc were mined, as well as the industrial minerals anhydrite, asbestos fiber, barite, bentonite, common clays, refractory clays, dolomite, feldspar, fluorspar, gypsum, kaolin, industrial lime, limestone, nitrogen (in ammonia), perlite, pyrites, salt (all types), sand and gravel, silica (quartz sand), calcined

sodium carbonate, dimension stone, sulfur (content of pyrite), sulfuric acid, and crushed stone. Most of the copper deposits were within a roughly 50 km-wide (30 mi) swath from Burgas in the east, to the former Yugoslavia in the west, and almost all was produced by two enterprises, Asarel-Medet, at Panagurishte, and Elatzite-Med, at Srednogorie; copper was also mined at Burgas and Malko Turnovo. Lead and zinc were mined chiefly in the Rhodope Mountains, at Madan and Rudozem. Production outputs for 2000 were: gold, 2,347 kg in 2000, down from 3,390 in 1996; gross copper, 22.8 million tons; barite ore (run of mine), 8.75 million tons, up from 285,000 in 1997, 452,197 in 1998, and 1.12 million in 1999; limestone and dolomite, 11 million tons; industrial lime, 1.39 million tons; and silica, 690,000 tons. Manganese ore production was zero in 1999 and 2000; it was 55,600 tons in 1998.

Navan Resources, of Ireland, obtained a new exploration license for gold in "highly prospective" southeastern Bulgaria. The Krumovgrad region, already known for the presence of epithermal gold mineralization, showed 110 million tons of ore grading 2.2 grams per ton gold and 8.8 grams per ton silver. Navan was also exploring a promising copper mineralization at Pozharevo, in western Srednegoria, and had a 92% interest in the Chelopech gold and copper mine. The UK's Hereward Ventures won a tender for the Dikanyite exploration license, south of Sofia, a gold-producing area in antiquity that was associated with shear zones. The Asarel-Medet copper mining and beneficiation complex was privatized in 1999 through a management-employee buyout. In 2000, 80% of KCM SA, the country's producer of lead and zinc, was sold to its management.

In 1998, the National Program for Sustainable Development of Mining in Bulgaria was drafted and approved, and the Underground Resources Act was enacted. The latter, which aimed to promote private enterprise and foreign investment, stipulated that underground mineral wealth was the property of the state, and provided for claims by domestic and foreign companies for the development and operation of mineral deposits for up to 35 years with potential 15-year extensions. Improved economic performance at the end of the 1990s, the significant shift away from economic uncertainties during the transition from central economic planning, improving political stability in the Balkans, and greater investor confidence in the legal underpinnings of the growing privatization process combined to contribute to the \$1 billion net foreign investment in 2000, one-third more than in 1999.

## 27 ENERGY AND POWER

In the 1980s, Bulgaria produced only about 35% of its energy needs. In 2000, net electricity generation was 39 billion kWh, of which 47.9% came from fossil fuels, 7.5% from hydropower, and 44.5% from nuclear energy. In the same year, consumption of electricity totaled 34.4 million kWh. Total installed capacity at the beginning of 2001 was 11.9 million kW. Lignite and brown coal are major sources (98%) for thermal power plants, which are located primarily in the coal-mining areas, including the Maritsa East Basin. The Maritsa East thermoelectric station has a capacity of about 650,000 kW.

In September 1974, Bulgaria's first nuclear power station—with a 440-MW reactor—opened at Kozloduy in the northwest. A second reactor was added in 1975, and a third and fourth in 1981 and 1982. The fifth and sixth reactors, each with a capacity of 1,000 MW, came online in 1988 and 1993, respectively. By 1994, nuclear plants supplied about 40% of Bulgaria's power. Until the two new reactors were added, continuous problems with the two oldest reactors had contributed to the decline of the country's overall electrical production.

Petroleum was discovered in the early 1950s in southern Dobruja (along the Black Sea), and in 1968 about 475,000 tons were produced; output subsequently declined to a low of 117,000



tons in 1976 and then rose to an estimated 1,000,000 tons in 1987, before falling to 45,000 tons in 1995. In 1998, production amounted to 1,000 barrels per day. Petroleum processing began in 1963. In September 1974, a Soviet-Bulgarian natural gas pipeline was opened with an annual carrying capacity of 5 million cu m (176.5 million cu ft). In 1991, Libya doubled its crude oil deliveries to Bulgaria to offset declining exports from the former USSR.

Coal is the most important mineral fuel, with lignite accounting for nearly 90% and brown coal for around 10%.

## 28 INDUSTRY

Before World War II, Bulgarian industry, construction, mining, and handicrafts contributed only 17% to the net national income and accounted for only 8% of employment. Handicrafts in 1939 contributed almost half the net industrial output, followed by textiles and food processing. In the postwar period, the Communist regime nationalized industry and, through economic planning, emphasized a heavy industrialization program that resulted in a substantial increase in the metalworking and chemical industries. Between 1950 and 1960, the annual rate of growth of output in industry (including mining and power production) was 14.8%, according to the official index of gross output. Official statistics indicate that industrial output grew by 1,100% between 1956 and 1980, with the production of capital goods increasing by 1,500% and the production of consumer goods by 658%. Industrial output increased by 9.1% annually during 1971–75, 6% during 1976–80, 6.8% during 1980–85, and 2.7% during 1985–90. Ferrous metallurgy was given special emphasis in the 1960s, machine-building and chemicals in the 1970s and early 1980s, and high technology in the mid-1980s.

Even before the collapse of communism, industrial and agricultural production fell annually until 1997 and 1998, respectively, when the Kostov reforms took effect. Although traditional industries remain the foundation of the industrial sector, Bulgaria expects high-technology production to post gains in the future as high-tech companies establish operation there.

Industry accounted for 29% of GDP in 2001. Primary industries included the processing of food, beverages, and tobacco, machinery and equipment, base metals, chemical products, coke, refined petroleum, and nuclear fuel. Bulgaria also produces electrical components and computers. The privatization of Bulgaria's industries was largely complete as of 2002, with the exception of a few large companies, such as Bulgartabac. The construction sector should realize strong growth due to the need to undertake major infrastructure projects. Growth in 2003 was expected in light industry, including electronics, textiles, and food processing.

## 29 SCIENCE AND TECHNOLOGY

In 1996, Bulgaria had 25 agricultural, medical, scientific, and technological learned societies and 117 research institutes. The Bulgarian Academy of Sciences (founded in 1869) is the main research organization. The Academy of Medicine (founded in 1972) has five higher medical institutes. Total expenditures on research and development in 1987–97 amounted to 0.6% of GNP; 1,747 scientists and engineers and 967 technicians per million population were engaged in research and development. A large-scale program of scientific and technological cooperation of CMEA countries was adopted at the end of 1985.

Bulgaria has 18 universities and colleges offering degrees in basic and applied sciences. In Sofia are the National Natural History Museum (founded in 1889) and the National Polytechnical Museum (founded in 1968). In 1987–97, science and engineering students accounted for 27% of university enrollment.

## 30 DOMESTIC TRADE

Private shops and small supermarkets are open in many cities and local farmer's markets are still active. A few warehouse stores have opened in Sofia. In 1992, retail trade turnover in state and cooperative trade came to Lv43,346.5 million. The government has remained committed to privatization efforts. By the end of 1999, 71% of state-owned assets had been privatized. Bulgaria has also attracted a number of foreign investors, including US companies such as American Standard, McDonald's, Kraft Foods, and Hilton International. However, Germany is the top foreign investor.

Newspapers and magazines are the important means of advertising to the population at large. Radio advertisements are permitted for half an hour each day.

Offices are open from 8:30 AM to 12:30 PM and from 1:30 to 5:30 PM, Monday through Friday. Normal banking hours are 8 AM to 12 noon, Monday–Friday, and 8 to 11 AM on Saturday.

## 31 FOREIGN TRADE

Foreign trade was a state monopoly under the Ministry of Foreign Trade until 1990. Before World War II, 90% of exports consisted of agricultural products, primarily foodstuffs; machinery, finished consumer goods, fuels, and raw materials were the major imports. However, in 2000, the principal exports were:

Apparel	14.6%
Refined petroleum products	11.2%
Chemicals	10.0%
Non-ferrous metals	9.9%
Machines and equipment	9.6%
Agri-food, drinks, tobacco	9.2%
Iron and steel	7.9%

The principal imports were crude oil, natural gas, diesel fuel, fuel oil, coal, textiles, and machinery and equipment.

Geographic distribution of trade has changed radically twice: since World War II and the collapse of the Soviet bloc. Whereas before the war Bulgaria traded mainly with the countries of Western and Central Europe, after the war, trade shifted almost entirely to the countries of the Communist bloc. In 1991, 49.8% of all exports still went to the former USSR and 43.2% of all imports still came from the former USSR.

By the mid-1990s, weak demand in the former Soviet block markets led to an increase in exports to European Union countries which now take about 50% of Bulgaria's exports. Just over 21% of exports go to Central and Eastern European countries, 16.2% to other OECD countries, 1.9% to Arab countries, and 11.9% to other countries. Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Italy	684	550	134
Germany	435	903	-468
Yugoslavia	376	23	353
Greece	376	317	59
Turkey	495	215	280
Belgium	299	86	213
Ukraine	240	335	-95
France	232	316	-84
United States	190	190	0
Russia	118	1,585	-1,467
United Kingdom	115	139	-24

## 32 BALANCE OF PAYMENTS

During the postwar industrialization program, Bulgaria had a trade imbalance, made up largely by credits, particularly from the former USSR. From 1952 to 1958, the country had visible export surpluses, but another industrialization drive resulted in a trade imbalance during 1959–61, and there were persistent imbalances

during the latter part of the 1960s. In the early 1970s, export surpluses were reported for most years; there were also small surpluses in 1979, 1980, and 1984. With the collapse of COMECON trade, Bulgaria began exporting agricultural products and light manufactured products in exchange for consumer goods. During the first nine months of 1992, Bulgaria recorded its first surplus in many years. Failure of the government to institute economic reforms, however, led to severe economic hardship and trade deficits of \$1.4 billion in 1993 and \$1.6 billion in 1994. In 1994, the deficit was partially financed by almost \$1.1 billion in aid from other countries and international financial institutions. In 2000, the current account deficit was financed by \$1 billion in foreign direct investment and additional funding from international financial institutions.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Bulgaria's exports was \$5.3 billion while imports totaled \$6.9 billion resulting in a trade deficit of \$1.6 billion.

The International Monetary Fund (IMF) reports that in 2001 Bulgaria had exports of goods totaling \$5.11 billion and imports totaling \$6.7 billion. The services credit totaled \$2.42 billion and debit \$1.88 billion. The following table summarizes Bulgaria's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-847</b>
Balance on goods	-1,576
Balance on services	540
Balance on income	-300
Current transfers	488
<b>Capital Account</b>	<b>...</b>
<b>Financial Account</b>	<b>1,002</b>
Direct investment abroad	-10
Direct investment in Bulgaria	692
Portfolio investment assets	-120
Portfolio investment liabilities	105
Other investment assets	348
Other investment liabilities	-31
<b>Net Errors and Omissions</b>	<b>289</b>
<b>Reserves and Related Items</b>	<b>-444</b>

### 33 BANKING AND SECURITIES

All banks were nationalized in 1947 in accord with Soviet banking policies. Until 1969, the Bulgarian National Bank (BNB) was the chief banking institution handling deposits of state and local governments and national enterprises. It was the bank of issue and was authorized to credit enterprises with funds for facilities and activities not covered by the capital investment plan. In 1969 it was renamed the Bulgarian Central bank and remained the bank of issue. Two new banks—the Industrial Bank and the Agricultural and Trade Bank—assumed the functions of providing credit for industry and for agriculture and individuals, respectively. In 1968, the Bulgarian Foreign Trade Bank was established as a joint-stock company. The State Savings Bank was the chief savings institution.

In 1996, the Bulgarian National Bank, lacking reserves, virtually gave up attempts to stabilize the exchange rate and contain inflation. However, the outlines of future economic policy under a new government appear to be decided, given that all parties agreed that a currency board was the cinch pin of economic stabilization. The IMF opened negotiations with the caretaker government on the introduction of a currency board, which it made a condition of further funding. When Bulgaria achieved independence in 1991, a two-tier banking system was formed. The Bulgarian National Bank became the country's central bank. The country has a state savings bank with 491 branches. There are about 80 commercial banks in Bulgaria. Some of the commercial banks are cross-border banks that are

involved in the foreign exchange market. Some of the banks licensed for cross-border foreign exchange include: Agricultural and Co-operative Bank (1987), Balkenbank (1987), Biochim Commercial Bank (1987), Bulgarian Post-Office Bank, Economic Bank (1991), Hemus Commercial Bank, and the Bank for Economic Enterprise (December 1991).

In a related move that was also seen as a step towards the restrictive regime of a currency board, the central bank announced in late January of 1997 that it would no longer be fixing a base interest rate. Instead, the BNB would set an indicative rate defined by the interest on short term government bonds. Banks themselves would be able to set their own rates according to market principles, without interference from the central bank. In 2001, the exchange rate to the dollar was 2.1847 leva. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$2.2 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$5.5 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 3.74%.

The First Bulgarian Stock Exchange was established in Sofia on 8 November, 1991 as a joint stock company with capital of Lv10,000,000 divided into 10,000 shares of Lv1,000 each. It is managed by a Board of Directors and by a Chief Executive. The exchange currently trades mainly in unlisted securities. The SOFIX Index grew by about 54% in 2002.

### 34 INSURANCE

Private insurance companies were nationalized in 1947 and absorbed into the State Insurance Institute. Property insurance and life insurance are compulsory for collective farms and voluntary for cooperatives, social organizations, and the population in general. Insurance policies and premiums have increased steadily for both. third-party automobile liability and workers' compensation are also compulsory insurances. In 1995, there were at least 12 different insurance companies doing business in Bulgaria. The Insurance Regulatory body is the Ministry of Finance. Since March of 1998, foreigners have been permitted to own a Bulgarian insurer.

### 35 PUBLIC FINANCE

An annual budget for all levels of government, becoming effective on 1 January, is voted by the National Assembly, after having been prepared by the Ministry of Finance. The disintegration of the communist system in November 1989 and the subsequent collapse of the Soviet trade bloc caused severe economic disruption, pushing the government's budget deficit to 8.5% of GDP in 1990 (not including interest payments on commercial foreign debt). However, by the late 90s the country was seeing unprecedented growth (5.8% in 2000), due to aggressive market reforms put in place by the government during the prior decade.

The US Central Intelligence Agency (CIA) estimates that in 2001 Bulgaria's central government took in revenues of approximately \$5.6 billion and had expenditures of \$5.7 billion. Overall, the government registered a deficit of approximately \$110 million. External debt totaled \$10.3 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	5,570
Tax revenue	73.0%	4,066
Non-tax revenue	22.5%	1,253
Capital revenue	0.7%	37
Grants	3.8%	214
EXPENDITURES	100.0%	5,680
General public services	6.6%	374
Defense	6.1%	346
Public order and safety	5.4%	308
Education	4.5%	254
Health	9.6%	548
Social security	35.5%	2,015
Housing and community amenities	1.9%	107
Recreation, cultural, and religious affairs	1.4%	80
Economic affairs and services	11.3%	644
Other expenditures	7.0%	396
Interest payments	10.7%	609

### 36 TAXATION

Bulgaria revised much of its tax system in 1996. One of the changes states that foreign persons receiving remuneration as lecturers and consultants, royalties, license payments, and remuneration for technical services, are charged with a 32% tax at the time of payment. Personal income tax rates increase progressively from 18% to 50%. The basic corporate or profit tax rate is 36%. A withholding tax of 15% is assessed on dividends. Employers are required to contribute 37% of employees' gross salaries for social security insurance while the employees contribute an additional 2%. The value-added tax on goods and services, introduced on 1 April 1994, was increased from 18% to 22%. Other taxes include a property tax at a rate of 2% to 4%.

### 37 CUSTOMS AND DUTIES

Most imports are subject only to declaration and registration. However, special licenses are required for imports of tobacco, alcoholic beverages, oils, military hardware, radioactive materials, jewelry, precious metals, pharmaceutical items, and narcotics. The Ministry of Foreign Trade supervises the collection of customs duties. The amount collected is not published.

Goods arriving from foreign points to be unloaded in Bulgaria must have customs manifests and other shipping documents as specified by law. Customs duties are paid ad valorem at a rate of 5% to 40% on industrial products and 5% to 70% on agricultural products. Goods from EU nations receive preferential tariff rates. Duty must be paid on all goods except those specifically exempt, such as many foods products, farm machinery, toiletries, fertilizer and pesticide, mining equipment, and medical and dental supplies. In August 1987, the national assembly adopted a law to establish tariff-free zones to attract foreign investment beginning in January 1988. Taxes on imports include a value-added tax of 20%, a 0.5% customs clearance fee, and a 3% import surcharge.

### 38 FOREIGN INVESTMENT

Bulgaria has realized the need to attract foreign investment and has one of the most liberal foreign investment laws in the region. The 1997 Foreign Investment Law set up the Foreign Investment Agency (FIA) to administer the regime. In 1999, currency laws were liberalized to conform with IMF Article VIII obligations. Foreign investors can enter into joint ventures, start new (greenfield) ventures, purchase companies in Bulgaria's privatization process, or acquire portfolio shares. The law governing privatizations is the 1992 Law on the Transformation and Privatization of State and Municipal Enterprises. In November 2000, amendments were made to enhance the transparency and efficiency of the privatization process and to bring it under Parliamentary control, but domestic political

turmoil and austerity under an IMF stand-by program combined with the external economic slowdown to bring foreign investment in privatization to a low of less than \$20 million in 2001. By 2000, about 78% of the state enterprises slated for privatization had been sold off with foreign investors participating mainly through direct cash purchases. The government encourages the use of Brady bonds (debt-for-equity swaps) in payment instruments. Bulgarian bad debt bonds (Zunks) can be purchased on the local market at a 30–35% discount on the face value and are accepted at a 40% premium in privatization sales.

Under legislation from 1987 and since revised, Bulgaria has six free zones where companies with foreign participation can receive equal or preferential treatment. The most profitable free zone is the one at Plovdiv. Others are on the Danube (at Ruse and Vidin), near the Turkish border (at Svilengrad), near the Serbia-Montenegro border (Dragomen), and on the Black Sea (at Burgas, which has the most advanced warehousing and transshipment facilities).

In 1992, foreign direct investment (FDI) was \$34.4, mostly from Austria and Hungary. In 1993, FDI jumped to \$102.4 million, \$22 million from privatization and over half (\$56 million) from Germany. By 1997, FDI inflow had risen to \$636.2 million. Most (\$421.4 million) came from privatization sales and the largest source was Belgium (\$264 million). In 1998, the effects of the Russian financial crisis helped produce the first post-independence decline to \$620 million; \$155.8 million was from privatization and Cyprus was the largest source (\$109 million), mainly from Stambouli Enterprises. In 1999, FDI inflow recovered to \$818 million, with \$226.7 million coming from privatization sales and with Germany, Cyprus, and Russia each the source of over \$100 million FDI. FDI inflow peaked in 2000 at \$1 billion, with \$366 million from privatization. The largest sources were Italy (\$339.7 million) and Greece (\$241million). The global economic slowdown beginning in 2001 reduced FDI inflow to \$812.9 million in 2001 and to an estimated \$478.7 million in 2002. Contributions from privatization reached a low of \$19.2 million, recovering to an estimated \$135.6 million in 2002. In 2001, Greece (\$240.2 million) and Italy (\$146.5 million) were the sources of the largest investments, and in 2002, the only FDI inflow over \$100 million was from Austria (\$137.7 million). The main source of disinvestments to date has been Korea (Daewoo and Hyundai), with negative flows of -\$9.2 million in 2001 and -\$41.3 million in 2002.

From 1992 to 2002, total FDI inflow was \$5.14 billion, \$1.58 billion from privatization sales. Sources include at least 25 countries, with the top five being Greece (12.4%), Germany (12.2%), Italy (10.5%), Belgium (9.4%), and Austria (8.7%). The sectors receiving the most net FDI 1998 to 2002 were banks and other financial activities (23.5%); trade and repair services (14.1%); telecommunications (9.1%); petroleum, chemicals, rubber and plastics (7.2%); and mineral products including cement and glass (6.8%).

Capital markets are small and underdeveloped in Bulgaria. The new Bulgaria Stock Exchange opened in 1998 with 998 companies and a total market valuation of \$992 million. In December 2001, there were 399 listed companies with a market capitalization of \$505 million.

### 39 ECONOMIC DEVELOPMENT

Until 1990 when the post-Communist government began a program of privatization, the economy was almost entirely nationalized or cooperatively owned and operated on the basis of state plans. These were designed to expand the economy as a whole, with emphasis on the growth of heavy industry (fuels, metals, machinery, chemicals) and on the development of export goods. In 1971, productive enterprises were grouped into more

than 60 state concerns responsible for almost all nonagricultural production.

Bulgaria's first five-year plan (1949–53) emphasized capital investment in industry. The period was marked by a slow pace in agricultural production (owing largely to collectivization and small investment), an inadequate supply of consumer goods, and a poor livestock output. The 1953–57 plan provided for a decrease in industrial investment, with a resultant improvement in agriculture, housing, and living conditions. The food-processing industry, important for export, began to receive greater attention in 1958, as did textiles and clothing. The lagging rate of growth during the early 1960s was due mainly to poor agricultural output and to a slower industrial pace. The third five-year plan (1958–62), with its “big leap forward” (1959–60), was claimed to have reached its goals by the end of 1960, but definite shortcomings remained. The fourth plan (1961–65) devoted 70% of total investment to industry, while agriculture received only 6.5%. Investments directed by the fifth plan (1966–70) adhered essentially to precedent, with some shift toward agriculture, and this trend continued under the sixth plan (1971–75). Of total investment during 1971–73, over 40% went to industry and 15% to agriculture. The 1976–80 plan resulted in a 35% increase in industrial output and a 20% increase in agricultural output. The overall growth rate began to slow down in the late 1970s, and the 1981–85 plan reflected the concept of a more gradual economic growth. Under the 1986–90 plan, it was projected that national income would grow by 22–25%, industrial output by 25–30%, and agricultural production by 10–12%. Priority was to be given to the development of high technology.

In the 1990s, the post-Communist government began a program to reform of the nation's economy. It rescheduled the foreign debt, abolished price controls, and became a member of the International Monetary Fund (IMF) and IBRD. The reforms, however, were not embraced by the Socialist government that took power in 1994 and by 1996 the economy was in a tailspin. The government led by prime minister Ivan Kostov that took power in 1997 laid the financial groundwork for a market economy by selling off state firms, strengthening the currency (lev), and doing away with price controls, state subsidies, monopolies, and trade restrictions. As a result of its successful stabilization of the lev and inflation, Bulgaria is viewed favorably by investors and is a candidate for membership in the European Union (EU). Membership in that body was expected for 2007 if accession requirements are met, including progress on privatization.

The government of Prime Minister Simeon Saxe-Coburg, which came to power in 2001, took steps to reduce taxes, rein in corruption, and encourage foreign investment. Bulgaria nevertheless suffers from high unemployment and low standards of living. A \$337 million stand-by arrangement with the IMF, approved in February 2002, was due to expire in February 2004. The government, while pledging to the IMF that it would adhere to sound macroeconomic policies (including controlling spending, strengthening tax administration, curbing inflation, balancing the budget, and strengthening the country's external financing position), stated the improvement of Bulgarians' living standards was central to the country's economic development.

#### 40 SOCIAL DEVELOPMENT

The code for compulsory social insurance was revised in 2000. It provides for dual coverage by a social insurance system and mandatory private insurance. The program covers all employees, self-employed persons, farmers, artists, and craftsman. Old age benefits begin at age 61 and 6 months for men and 56 and 6 months for women; these will be increased incrementally until 2009 when retirement age will be 63 for men and 60 for women. Survivors' and disability pensions are also provided, as well as

work injury and unemployment benefits. Maternity benefits amount to 90% of earnings for 135 days. The government provides family allowance benefits based on the age and number of children.

Although women have equal rights under the constitution, they have not had the same employment opportunities as men. Although many women attend university, they have a higher rate of unemployment, and are likely to work in low paid jobs. Violence against women remains a serious problem, and domestic violence is considered a family problem and not a criminal matter. There exists societal stigma against rape victims, and no laws prohibit sexual harassment.

The two largest ethnic minority groups in Bulgaria are the Turks and Roma. Discrimination against Romani peoples in the workplace are common. Ethnic tensions and attacks against Romani communities have been reported in 1999. In response the government continued its program of introducing Romani language textbooks into the school systems to improve the educational standing of Romani children. There have also been reports of police brutality against Roma. The current government has increased the rights of the minority Turks to practice their language and culture. The use of the Turkish language had been banned until 1989 by the Zhivkov government in order to either forcibly assimilate the Turks, or force them to emigrate. In 1999, government reforms to increase police accountability increased control over security forces, but it still remained inadequate and excessive force was still used in some cases.

Although freedom of speech is provided for by the constitution, the government maintains influence over the media and libel is a criminal offense. The government and public have limited tolerance for religious freedom.

#### 41 HEALTH

The Ministry of Health is the controlling and policy-making agency for the health system in Bulgaria. In 1999, an estimated 4% of GDP went to health expenditure. In 1991, the Bulgarian government passed a bill restoring the right of the private sector to practice medicine and permitting the establishment of private pharmacies, dentists, and opticians. Bulgarian citizens resident in the country still have use of the free national health service. Bulgaria is in the process of restructuring its health care system from one based on command and control to one founded on pluralism. Medical care has never been well funded, but the shift from a centrally planned to a private enterprise system has left the medical sector in disarray. Doctors continue to receive low wages and operate inadequate and outdated machinery and patients on the whole receive minimal health services. In 1993, the World Bank assessed the country's problems and recommended numerous changes and improvements. The Ministry of Health sought funding for 19–21 additional health centers and the rehabilitation of 67 secondary centers served by 283 emergency medical teams. Utilization of health care services, including hospitalization, outpatient treatment, and preventive care, declined throughout the 1990s.

In 1999, Bulgaria had 98 municipal hospitals with an average of 227 beds apiece, and 32 general district hospitals with an average of 874 beds. In addition there were 12 university hospitals in Sofia. As of 1999, there were an estimated 3.5 physicians and 8.6 hospital beds per 1,000 people. In 1997 there were a total of 28,655 physicians in the public health sector. Mortality in 1999 was 13 per 1,000 (compared with 8.1 in 1960).

Stroke mortality is among the highest in Europe and circulatory diseases account for more than half of all deaths. Smoking is on the increase; alcohol consumption is high; physical activity is low; and obesity is common. Bulgarians have a high intake of fats, sugars, and salt. One out of eight people has high blood pressure. Improved maternal and child care lowered infant

mortality from 108.2 per 1,000 in 1951 to 13 per 1,000 in 2000. In 1999, there were 46 cases of tuberculosis per 100,000 people despite high immunizations for this disease. In the same year Bulgaria immunized children up to one year old as follows: diphtheria, pertussis, and tetanus, 96%, and measles, 96%. There were 75,221 births in 1999. From 1980 to 1993, an estimated 76% of married women (ages 15 to 49) used contraception. The fertility rate has decreased from 2.2 per woman in 1960 to 1.3 per woman in 2000. Bulgaria's maternal mortality rate is below the average for countries of medium human development. As of 1998, an estimated 15 women died in pregnancy or childbirth per 100,000 live births. In 1990, 99% of the population had access to safe drinking water. Life expectancy in 2000 was 72 years on average. In 1994, there were 39 AIDS cases. As of 1999, the number of people living with HIV/AIDS was estimated at 346 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.01 per 100 adults.

## 42 HOUSING

There are two main types of housing environments in the country: street district and housing complexes. Most of the street district housing was built before World War II and consists of private lots built to follow a street regulation plan. Beginning in the 1950s, housing complexes were built on public property, though the homes themselves are privately owned. Over 120 complexes have been built in the last fifty years, with a large number of prefab homes.

Although housing construction during 1976–85 averaged about 60,000 units per year, the housing shortage continues, especially in the larger cities, because of the influx into urban areas of new workers and because of the emphasis placed on capital construction. In 1975, to curb urban growth, the government instituted tight restrictions on new permits for residences in major cities. In December 1982, the Communist Party decreed that, in order to halt the growth of Sofia, a number of enterprises in the capital would be closed or moved elsewhere.

Capital investment for housing construction during 1976–80 amounted to Lv3.5 billion. At the end of 1985 there were 3,092,000 dwelling units in the country, 24% more than in 1975; by 1991, this figure had risen to 3,406,000. The number of new houses built plummeted from 62,926 in 1988 to 40,154 in 1989, 26,200 in 1990, and 19,423 in 1991.

## 43 EDUCATION

Illiteracy has been decreasing steadily. The government claims that literacy is complete, but for the year 2000 Western sources estimate adult illiteracy rates at 1.5% (male, 0.9%; female, 2.0%). Education is free and compulsory for eight years between the ages of 7 and 16. As of 1999, public expenditure on education was estimated at 3.4% of GDP.

As of 1995, 95% of primary-school-age children were enrolled in school, while 86% of those eligible attended secondary school. In 1997 there were 3,170 primary level schools with 25,860 teachers and 431,790 students. Student-to-teacher ratio stood at 17 to 1. At the secondary level in the same year, there were 67,088 teachers and 733,362 students.

There are over 30 higher education institutions, including four universities. The most important is the University of Sofia, founded in 1888. The others include the University of Plovdiv (founded 1961), the University of Veliko Tarnovo (founded 1971), and the American University in Bulgaria (founded 1991). All higher level institutions had a total of 262,757 students and 26,303 teaching staff in 1997.

## 44 LIBRARIES AND MUSEUMS

The St. Cyril and St. Methodius National Library, established in 1878 in Sofia, is the largest in Bulgaria (2.52 million volumes); since 1964, the Elin Pelin Bulgarian Bibliographic Institute has

been attached to it. Other important libraries are the Central Library of the Scientific Information Center (with 740,000 volumes), the Bulgarian Academy of Sciences library (1.74 million volumes), the Sofia University Library (1,500,000 volumes), and the Ivan Vazov National Library in Plovdiv (with 1,300,000 volumes). As of 1997, the public library system had over 4,200 branches throughout the country.

Bulgaria has some 200 museums, of which the most important include the National Archaeological Museum (attached to the Academy of Sciences) and the National Art Gallery (with a collection of national and foreign art), both in Sofia. Other museums are devoted to history, science, and the revolutionary movement, and include the Bojana Church Museum in Sofia, the Museum of Wood Carvings and Mural Painting in Trjauna, with an important collection of artifacts from the Bulgarian National Revival Period in the 18th and 19th centuries, and the Open-Air Museum of Ethnography in Gabrovo.

## 45 MEDIA

Telecommunications systems are owned and operated by the state. Telex service to the rest of the world improved markedly in 1982, when a new computerized telegraph exchange was put in service. By the mid-1980s, most communities were connected by telephone; telephones numbered 3.18 million in 2001. As of 2001, there were 31 AM and 63 FM radio stations and 39 television stations. In Spring 2000, the government awarded a license for the first privately owned television station with nationwide coverage to the Balkan News Corporation. All other national television stations are state-owned, though there are a number of privately operated regional stations. In 1997 there were 4.5 million radios and 3.3 million television sets.

The principal Sofia papers, with their publishers and estimated daily circulations (2002), are:

	PUBLISHER	CIRCULATION
<i>24 Chasa</i>	Vest Publishing House	330,000
<i>Bulgarska Armiya</i>	Ministry of Defense	30,000
<i>Demokratsiya</i>	Union of Democratic Forces	45,000
<i>Duma</i>	Socialist Party	130,000
<i>Trud</i>	Confederation of Independent Trade Unions	200,000
<i>Zemedelsko Zname</i>	Agrarian People's Union	178,000
<i>Zemya</i>	Socialist Party	53,000

In 2001, there were 200 Internet service providers serving about 585,000 users.

The Constitution of Bulgaria ensures freedom of speech and of the press, and the government is said to generally respect these rights. However, in September 1996, a media bill was passed that would subject the media to increased political influence by the party in power. In November of that year, the bill was deemed unconstitutional. National television and radio broadcasting remain under supervision of the National Council for Radio and Television (NCRT), a quasi-governmental body that oversees national media and regulates private broadcasters.

## 46 ORGANIZATIONS

Bulgaria's important economic organizations include the Bulgarian Chamber of Commerce and Industry (1985) and organizations dedicated to promoting Bulgaria's exports in world markets. There are trade unions representing a wide variety of vocations. The Confederation of Independent Trade Unions of Bulgaria was founded in 1901 and taken over by the Communists after World War II. In 1990, it became an independent organization. It has about 75 member federations and four association members. There are also many professional medical organizations.

There are several associations promoting a wide range of sports and leisure activities, including bobsledding, badminton,

baseball, chess, yoga, and amateur radio. The National Federation of Sports in Schools was established in 1993 to promote and coordinate sport activities through the schools. The Bulgaria Academy of Science promotes scientific study and advancement, conducts research projects, and maintains a museum. The Institute of Art Studies is cosponsored by the Academy of Science as an organization dedicated to promoting Bulgarian art and culture.

Since 1990, a number of youth organizations have developed throughout the country. The Bulgarian Democratic Youth, with about 90,000 members, became the successor to the Dimitrov Young Communist League. The group serves to advance civic enterprise and control and promote a social environment for enterprising youth. Student groups include the Federation of Independent Student Associations, the Bulgarian Association of University Women, the Independent Student Trade Union, and the Student League of Beliko Turnovo. Scouting organizations are also active.

#### 47 TOURISM, TRAVEL, AND RECREATION

Despite the country's economic troubles, tourism in Bulgaria has risen rapidly since the end of Communist rule. The tourist industry is in the process of becoming totally privatized, a development that is expected to improve the quality of the tourism infrastructure. Bulgaria is rich in mineral waters and has numerous tourist spas. Visitors are attracted to the Black Sea resorts and the Balkan mountains. Foreign visitors to Bulgaria must have a passport and, depending on their nationality, may require a visa.

In 2000, tourist receipts totaled approximately US\$1 billion as the number of foreign visitors totaled 4,922,118. That year there were 120,150 beds available in hotels and other establishments, with an occupancy rate of 28%.

In 2002 the US government estimated the cost of staying in Sofia at \$215 per day. In smaller towns the daily costs were approximately \$90.

#### 48 FAMOUS BULGARIANS

The founders of modern Bulgarian literature, writing before the end of Turkish rule, were Georgi Rakovski (1821–67), Petko Slaveikov (1827–95), Lyuben Karavelov (1835–79), and Kristo Botev (1848–76), who was one of Bulgaria's greatest poets. The most significant writer after the liberation of 1878 was Ivan Vazov (1850–1921), whose *Under the Yoke* gives an impressive picture of the struggle against the Turks. Pentcho Slaveikov (1866–1912), the son of Petko, infused Bulgarian literature with philosophical content and subject matter of universal appeal; his epic poem *A Song of Blood* recalls an insurrection suppressed by the Turks in 1876. In the period between the two world wars, Nikolai Liliyev (1885–1960) and Todor Trayanov (1882–1945) were leaders of a symbolist school of poetry. Elin Pelin (1878–1949) and Jordan Iovkov (1884–1939) wrote popular short stories on regional themes. More recent writers and poets include

Nikola Vaptzarov, Christo Shirvenski, Dimiter Dimov, Orlin Vassilev, and Georgi Karaslavov. Elias Canetti (1905–94), Bulgarian born but lived from 1938 until his death in the UK, received the Nobel Prize for literature in 1981. Ivan Mrkvicka (1856–1938), a distinguished Czech painter who took up residence in Bulgaria, founded the Academy of Fine Arts in Sofia.

A prominent Bulgarian statesman was Alexander Stamboliski (1879–1923), Peasant Party leader who was premier and virtual dictator of Bulgaria from 1920 until his assassination. The best known modern Bulgarian, Georgi Dimitrov (1882–1949), was falsely charged in 1933 with burning the Reichstag building in Berlin; he became general secretary of the Comintern until its dissolution and prime minister of Bulgaria in 1946. Traicho Kostov (1897–1949), an early revolutionary leader, was a principal architect of Bulgaria's postwar economic expansion. Caught up in the Tito-Stalin rift, he was expelled from the Politburo and executed in December 1949. Todor Zhivkov (1911–1998) was first secretary of the Bulgarian Communist Party between 1954 and 1989, the longest tenure of any Warsaw Pact leader. His was marked by ardent and steadfast support of Soviet policies and ideological positions. Zhivkov's daughter Lyudmila Zhivkova (1942–81), a Politburo member since 1979, was regarded by Western observers as second only to her father in power and influence. Zhivkov was replaced by Dimitar Popov as premier of a coalition government headed by the Socialist Party (formerly the Communist Party).

#### 49 DEPENDENCIES

Bulgaria has no territories or colonies.

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# CROATIA

Republic of Croatia  
*Republika Hrvatska*

**CAPITAL:** Zagreb

**FLAG:** Red, white, and blue horizontal bands with the Croatian coat of arms (red and white checkered).

**ANTHEM:** *Lijepa Nasa Domovina*.

**MONETARY UNIT:** The Croatian kuna (HRK was introduced in 1994, consisting of 100 lipa. As of January 2000, HRK1 = \$0.1470 (or US\$1 = HRK6.8) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Epiphany, 6 January; Labor Day, 1 May; Republic Day, 30 May; National Holiday, 22 June; Assumption, 15 August; Christmas, 25–26 December.

**TIME:** 7 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Croatia is located in southeastern Europe. Comparatively, the area occupied by Croatia is slightly smaller than the state of West Virginia with a total area of 56,542 sq km (21,831 sq mi). Croatia shares boundaries with Slovenia on the W, Hungary on the N, Serbia and Montenegro on the E, Bosnia and Herzegovina on the S and E, and the Adriatic Sea on the W, and has a total boundary length of 8,020 km (4,983 mi), including 5,835 km (3,626 mi) of coastline. Croatia's capital city, Zagreb, is located in the northern part of the country. Croatia's territory includes 1,185 nearby islands in the Adriatic Sea, of which only 66 are inhabited.

## <sup>2</sup>TOPOGRAPHY

The topography of Croatia is geographically diverse, with flat plains along the Hungarian border, as well as low mountains and highlands near the Adriatic coast. The country is generally divided into three main geographic zones: the Pannonian and Peri-Pannonian Plains in the east and northwest, the central hills and mountains, and the Adriatic coast. Approximately 24% of Croatia's land is arable. Croatia's natural resources include: oil, some coal, bauxite, low-grade iron ore, calcium, natural asphalt, silica, mica, clays, and salt. Croatia's natural environment experiences effects from frequent earthquakes, air pollution from metallurgical plants, coastal pollution from industrial and domestic waste, and forest damage.

## <sup>3</sup>CLIMATE

Croatia's climate in the lowlands features hot, dry summers and cold winters. In Zagreb, the average annual temperature is 12°C (53°F) with average highs of 2°C (35°F) in January and 27°C (80°F) in July. In the mountains, summers are cool and winters cold and snowy. Along the coast, the climate is Mediterranean with mild winters and dry summers. In Split, the average annual temperature is 17°C (62°F). Annual average precipitation is about 94 cm (37 in).

## <sup>4</sup>FLORA AND FAUNA

The region's climate has given Croatia a wealth of diverse flora and fauna. Ferns, flowers, mosses, and common trees populate the landscape. Along the Adriatic Sea there are subtropical plants. Native animals include deer, brown bears, rabbits, fox, and wild boars.

## <sup>5</sup>ENVIRONMENT

Air pollution (from metallurgical plant emissions) and deforestation are inland environmental problems. In 1996 industrial carbon dioxide emissions totaled 17.5 million metric tons. Coastal water systems have been damaged by industrial and domestic waste. All of Croatia's urban dwellers have access to safe drinking water. Environmental management is becoming more decentralized, thereby empowering city and municipal administrations to determine environmental policy. Croatia's 195 protected areas cover 421,000 ha, or 7.4% of the country's natural areas. Forest and woodland accounted for 15% of Croatia's land use in 1996. As of 2001, there were 10 mammal species and 6 bird species that were considered threatened. Endangered species include the Atlantic sturgeon, slender-billed curlew, and the Mediterranean monk seal.

## <sup>6</sup>POPULATION

The population of Croatia in 2003 was estimated by the United Nations at 4,428,000, which placed it as number 115 in population among the 193 nations of the world. In that year approximately 13% of the population was over 65 years of age, with another 20% of the population under 15 years of age. There were 93 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.19%, with the projected population for the year 2015 at 4,275,000. The population density in 2002 was 76 per sq km (198 per sq mi).

It was estimated by the Population Reference Bureau that 58% of the population lived in urban areas in 2001. The capital city, Zagreb, had a population of 1,047,000 in that year. It is by far the largest city in the country. Other cities include Split, 189,388;

Rijeka, 167,964; and Osijek, 104,761. According to the United Nations, the urban population growth rate for 2000–2005 was 0.6%.

## 7 MIGRATION

As ethnic conflict escalated, by mid-1991 some 160,000 people living in Croatia had fled to other Yugoslav republics, and about 120,000 had fled abroad. Total returns to Croatia as of February 2000 numbered over 112,000, including 36,000 Croatian Serbs who repatriated from the Federal Republic of Yugoslavia and the Republika Srpska. Also, nearly 74,000 internally displaced people had returned to their homes within Croatia. In February 2000, an estimated 250,000 Croatian Serb refugees were still registered in the Federal Republic of Yugoslavia and in Bosnia. Of these, more than 25,000 had applied for return under the government's Return Programme. In 2000, the UNHCR was assisting some 47,000 people in Croatia: 13,000 refugees, 30,000 returnees, and 4,000 internally displaced people. UNHCR expected this figure to decrease to some 43,000 people by the end of 2000. Almost all of the refugees were from Republika Srpska (the Bosnian-Serb entity in Bosnia and Herzegovina). The net migration rate in 1999 was 1.81 migrants per 1,000 population. The total number of migrants living in Croatia in 2000 was 425,000. The government views the emigration level as too high.

## 8 ETHNIC GROUPS

Croats made up 78% of the population at last estimates. Serbs were 12% and Muslims 0.9%. Hungarians accounted for 0.5%; Slovenians for 0.5%; and others 8.1%. A 1991 law guarantees Serbs autonomy in areas where they constitute the majority, but only after permanent peace is achieved.

## 9 LANGUAGES

Serbo-Croatian is the native language and is used by 96% of the populace. Since 1991, Croats have insisted that their tongue (now called Croat) is distinctive. The spoken language is basically the same, but Serbs use the Cyrillic alphabet and Croats the Roman alphabet. The Croatian alphabet has the special consonants *č*, *ć*, *š*, *ž*, *dj*, *dž*, and *nj*, representing sounds provided by the Cyrillic alphabet. The remaining 4% of the population speak various other languages, including Italian, Hungarian, Czech, Slovak, and German.

## 10 RELIGIONS

The Republic of Croatia declared its independence of the former Yugoslav federated republic in June of 1991. Christianity was introduced into the area in the 7th century. Under the Yugoslav Socialist Republic, churches—Roman Catholic in particular—experienced repression by the state. This moderated in 1966, when an agreement with the Vatican recognized a religious role for the clergy. Though there is no official state religion, the Roman Catholic Church seems to receive preferential treatment in terms of state support.

The latest estimates (2002) recorded a Roman Catholic population of 85%, with 6% Orthodox Christians, and 1% Muslims. Less than 1% were Jewish and about 4% belong to other faiths, including the Church of Jesus Christ of Latter-Day Saints, Jehovah's Witnesses, Greek Catholic, Pentecostals, Hare Krishnas, Baptists, Seventh-Day Adventists, and the Church of Christ. About 2% of the population are atheists. The Orthodox can be found in Serb areas; other minority religions can be found mostly in urban areas. No formal restrictions are placed on religious groups, and all are free to conduct public services and run social and charitable institutions.

## 11 TRANSPORTATION

Croatia's railroads consist of two main routes. An east-west route originating in Serbia nearly parallels the Sava before reaching

Zagreb and continuing on to Slovenia and Hungary. The north-south route connects the coastal cities of Split and Rijeka to Zagreb. Another railway connects Dubrovnik to Bosnia and Herzegovina. As of 2002, there were 2,726 km (1,694 mi) of railroads. Some lines, however, remain inoperative or out of use due to territorial dispute. Highways totaled 28,009 km (17,405 mi) in 2002, of which 23,695 km (14,724 mi) were paved roads, including 330 km (205 mi) of expressways.

Rijeka, Split, and Kardeljevo (Ploce) are the main seaports along the Adriatic. There are 785 km (488 mi) of perennially navigable inland waters; Vukovar, Osijek, Sisak, and Vinkovci are the principal inland ports. In 2002, Croatia had 49 ships of at least 1,000 GRT, for a total capacity of 681,465 GRT (1,076,315 DWT).

Croatia had an estimated 67 airports in 2001, of which 22 had paved runways. Principal airports include Dubrovnik, Split, and Pleso at Zagreb. In 2001, 1,063,900 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

### Origins through the Middle Ages

Slavic tribes penetrated slowly but persistently into the Balkan area beginning in the 5th century. Their migration, and that of the Serbians, occurred upon the invitation of the Byzantine emperor Heraclius I (r. 610–641) in 626, to repel the destructive inroads of the Avars. A coalition of Byzantine and Croat forces succeeded in forcing the Avars out of Dalmatia first, and then from the remainder of Illirycum and the lands between the Drava and Sava rivers. The Croats settled on the lands that they had freed from the Avars and established their own organized units that included indigenous Slavic tribes.

By the year 1000, Venice, having defeated the Croatian fleet, controlled the entire Adriatic coast. The coastal cities, while welcoming the Italian cultural influence of Venice, feared potential Venetian domination over their trading interests with the enormous Balkan hinterland. Thus Dubrovnik (formerly called Ragusa), with its growing fleet, preferred to remain tied to the more distant Byzantine Empire.

Zvonimir, son-in-law of the Hungarian king Bela I, was crowned king of Croatia in 1075. Zvonimir died around 1089 without an heir, leaving his widow with the throne, but the nobles opposed her rule because of her Hungarian ancestry. The king of Hungary intervened to protect his sister's interests (and his own) by occupying Pannonian Croatia. The area was recovered in 1095 by Peter Svacic from Knin (1093–97). Peter, the last independent king of Croatia, was killed in battle in 1096 by King Koloman of Hungary, who then conquered Croatia. After concluding a nonaggression pact with Venice, which had retained control of the coastal islands and cities, the Croats rebelled and drove the Hungarian forces back to the Drava River frontier between Croatia and Hungary.

### Royal Union with Hungary

In 1102, Koloman regrouped and attacked Croatia. He stopped at the Drava River, however, where he invited the nobles representing the twelve Croatian tribes to a conference. They worked out the so-called *Pacta Conventa*, an agreement on a personal royal union between Hungary and Croatia (including Slavonia and Dalmatia). The overall administration of the state would be by a "ban" (viceroy) appointed by the king, while regional and local administration were to stay in the hands of the Croatian nobles. This legal arrangement, with some practical modifications, remained the basis of the Hungarian-Croatian personal royal union and relationship until 1918.

Internal warfare among Croatia's nobility weakened its overall ability to resist attack from Venice. In 1377, Tvrtko (1353–1390) proclaimed himself king of the Serbs, Bosnia, and the Croatian





LOCATION: 45°10' N 15°30' E. BOUNDARY LENGTHS: Total boundary lengths, 2,197 kilometers (1,365 miles); Serbia and Montenegro, 266 kilometers (165 miles); Bosnia and Herzegovina, 932 kilometers (579 miles); Slovenia, 670 kilometers (416 miles); Hungary, 329 kilometers (204 miles). COASTLINE: 5,790 kilometers (3,598 miles); mainland coastline, 1,778 kilometers (1,105 miles); islands coastline, 4,012 kilometers (2,493 miles).

coast. Venice was defeated in 1385, and was forced to surrender all rights to the coastal cities all the way to Durazzo in today's Albania. Dubrovnik also gained its independence from Venice, recognizing the sovereignty of the Hungarian-Croatian king.

**Defense against the Turks**

By the mid-15th century the threat from both the Turks and Venice was growing more ominous, leading King Sigismund to establish three military defense regions in 1432. As these defensive regions were further developed, they attracted new,

mostly Serbian, settlers/fighters who became the strong Serbian minority population in Croatia. The Ottoman threat brought about the appointment of Vladislav Jagiellon, the king of Poland, as king of Hungary and Croatia in 1440. Vladislav was succeeded in 1445 by Ladislav, son of Albert of Hapsburg, and therefore king of both Austria and Hungary/Croatia. Since Ladislav was a minor, John Hunyadi, a brilliant general, was appointed regent. Hunyadi had to protect the throne from the counts of Celje, who, in 1453, also claimed the title of ban of Croatia. Ulrich, one of the counts of Celje, fell victim to Hunyadi's assassins at the

defense of Belgrade from the Turks in 1456. This murder was avenged by King Ladislas V, who had Hunyadi executed in 1456.

After 1520, the Turks began effective rule over some Croatian territory. In 1522, the Croatian nobility asked Austrian archduke Ferdinand of the Hapsburgs to help defend Croatia against the Turks, but by 1526, the Turks had conquered Eastern Slavonia and had advanced north into Hungary. On 29 August 1526, in a massive battle at Mohacs, the Turks defeated the Hungarian and Croatian forces, killing King Louis. By 1528, the Ottomans held the southern part of Croatia, and by 1541 had conquered Budapest. Dubrovnik, on the other hand, had accepted the Ottoman suzerainty in 1483, keeping its autonomy through its extensive trade with the Turkish empire. Most coastal towns were under the protection of Venice, with its good trade relations with the Turks.

In 1526, after King Louis's death at Mohacs, Ferdinand of Hapsburg was elected king of Hungary and Croatia. The Hapsburg rulers began to encroach on the rights of Croats by turning the throne from a traditionally elected position into a hereditary one, and by allocating Croatian lands as fiefs to their supporters, turning the Croatian peasants from free men into serfs.

King Ferdinand III (r.1637–1657) consolidated Hungary and Croatia under Hapsburg rule. Under Ferdinand's son, Leopold I (who in 1658 had also become the German emperor), the status of Hungary and Croatia continued to deteriorate. All power was centralized in the hands of the king/emperor and his court. Leopold tried to emulate the absolutist model practiced by Louis XIV of France. The Turkish offensives of 1663 were successfully repelled by the Croatian brothers Nicholas and Peter Zrinski. Following the defeat of the Turks at Saint Gotthard in western Hungary in 1664, Leopold I unilaterally concluded a 20-year peace treaty with the Turks based essentially on the prewar situation.

The Peace of Vasvar proved to the Hungarians and Croats that the Hapsburg court was not interested in fighting the Turks for Hungary and Croatia. This situation led to a conspiracy by the Zrinski brothers and key Hungarian nobles against the Hapsburg Court. But the Turks warned the Hapsburgs of the conspiracy, and Peter Zrinski and his coconspirator Francis Frankopan were executed on 30 April 1671 (Nicholas Zrinski had died in 1664). Leopold I suspended for ten years the office of the Croatian ban.

The last king of the male Hapsburg line was Charles III (r.1711–1740). In 1722, during his reign the Hungarian parliament agreed to extend the Hapsburg hereditary right to its female line (Charles had no son), something already agreed to by the Croatian parliament in 1712. At the same time the Hungarians obtained a legal guarantee on the indivisibility of the realm of the Crown of Saint Stephen, which included Croatia. Charles was thus followed by his daughter Maria Teresa (r.1740–1780) who, by decree, divided Croatia into regions headed by her appointees. Joseph II, her son, emancipated the serfs, tried to improve education, tried to impose the German language as a unifying force, closed monasteries in an attempt to control the Roman Catholic Church, and decreed religious toleration. In the 1788 war against the Turks, Joseph II suffered a devastating defeat; he died two years later.

Leopold II, Joseph II's brother, succeeded him, and recognized Hungary and Croatia as kingdoms with separate constitutions. Hungarian replaced Latin as the official language of the Hungarian parliament. Hungarians then began trying to establish the Hungarian language in Croatia, Slavonia, and Dalmatia, thus initiating a hundred-year struggle of the Croats to preserve their identity.

### Napoleon and the Spring of Nations

With the peace treaty of Campoformio ending the war against Napoleon in 1797, Austria obtained the territories of the Venice

Republic, including the Adriatic coast as far as Kotor. In 1806, Napoleon seized Dubrovnik, and in 1809 he obtained control of Slovenian and Croatian territories and created his Illyrian Provinces. The French regime levied heavy taxes and conscription into Napoleon's armies. With Napoleon's defeat, all of Dalmatia reverted back to direct Austrian administration until the end of World War I in 1918.

In 1825, Francis I called the Hungarian parliament into session and the Hungarians resumed their pressure to introduce the Hungarian language into Croatian schools. Ljudevit Gaj became the leader of the movement calling for the reassertion of the independent Kingdom of Croatia and advocated the introduction of "Illyrian" (Croatian) as the official language to replace Latin. A member of the Illyrian movement, Count Janko Drašković, also promoted the idea of reorganizing the Hapsburg lands into a federation of political units with coequal rights. The Croatian parliament then nullified the previous agreement on using Hungarian, and made Croatian the official language of parliament. In 1840, the Croatian Sabor voted for the introduction of Croatian as the language of instruction in all Croatian schools and at the Zagreb Academy.

The struggle over the Croatian language and national identity brought about the establishment of the first political parties in Croatia. The Croatian-Hungarian Party supported a continued Croat-Hungarian commonwealth. The Illyrian Party advocated an independent kingdom of Croatia comprising all the Croatian lands including Bosnia and Herzegovina. The Austrian government banned the term "Illyrian" and the name of the Illyrian party of Ljudevit Gaj and Drasković was changed to the National Party.

At the next session of the Hungarian parliament in 1843, the Croatian delegation walked out when not permitted to use Latin instead of Hungarian. The Croatian National Party submitted to the emperor its demands to reestablish an independent government of Croatia, elevate the Zagreb Academy to university status, and raise the Zagreb bishopric to the archbishopric rank. The lines were thus drawn between the Hungarian and Croatian nationalists. This situation came to a head in 1848 when great unrest and revolts developed in Austria and Hungary.

### Autonomy or Independence

Francis Joseph I (r.1848–1916) ascended to the Hapsburg throne on 2 December 1848 and ruled for a long time, favoring the Hungarians against the Croats. Croatian parties had split between the pro-Hungarian union and those advocating Croatian independence based on ancient state rights. The latter evolved into the "Yugoslav" (South Slavic Unity) movement led by Bishop Josip Juraj Strossmayer and the "Pravaši" movement for total Croatian independence led by Ante Starčević. Austria and Hungary resolved their problems by agreeing on the "dual monarchy" concept. The Hungarian half of the dual monarchy consisted of Hungary, Transylvania, Croatia, Slavonia, and Dalmatia. A ban would be appointed by the emperor-king of Hungary upon the recommendation of the Hungarian premier, who would usually nominate a Hungarian noble. Croatia-Slavonia-Dalmatia was recognized as a nation with its own territory, the Croatian language was allowed, and it was granted political autonomy in internal affairs. But in reality, the Hungarians dominated the political and economic life of Croatia.

### Yugoslavism

In the 1870s, Ivan Mazuranic was appointed ban of Croatia. He implemented general administrative reform and a modern system of education. The Sabor instituted a supreme court and a complete judicial system. The 1878 Congress of Berlin allowed Austria's military occupation and administration of Bosnia and Herzegovina and the Sandzak area (lost by the Turks after their defeat by Russia in 1877). The Croatian Sabor then requested the

annexation of those areas, but Austria and Hungary refused. Croatia and Serbia were deeply disappointed, and Serbia began supporting terrorist activities against the Austrians. In 1881, the military region was joined to Croatia, thus increasing the size of its Serbian Orthodox population. This offered the Hungarian ban Khuen Hedervary the opportunity to play Serbs against Croats in order to prevent their joint front. The relations between Croats and Serbs continued to deteriorate.

By 1893, there was a united Croatian opposition that called for equality with Hungary, the unification of all Croatian lands, and which invited the Slovenes to join Croatia in the formation of a new state within the framework of the Hapsburg monarchy. This united opposition took the name of Croatian Party of Right ("Stranka Prava"). National unification, however, had strong opposition from powerful forces: the Hungarians with their Great Hungary Drive; the Serbs, who wanted to annex Bosnia and Herzegovina into Serbia; the Italians, claiming Istria, Rijeka, and Dalmatia; and the Austrians, and their Pan-Germanic partners.

Croats and Serbs formed a Croat-Serbian coalition, winning a simple majority in the 1908 Croatian parliamentary elections, followed by the Party of Right and the Peasant Party, led by the brothers Anthony and Stephen Radic. Also in 1908, the direct annexation of Bosnia and Herzegovina by Austria took place. The Party of Right and the Peasant Party supported the annexation, hoping that the next step would be Bosnia and Herzegovina's incorporation into a unified Croatia. Serbia, conversely, was enraged by the annexation. Assassination attempts increased and led to the assassination of Archduke Ferdinand and his wife in Sarajevo on 28 June 1914. These tragedies followed the Serbian victories and territorial expansion in the wake of the 1912 and 1913 Balkan wars.

The idea of a separate state uniting the South Slavic nations ("Yugoslavism") grew stronger during World War I (1918–18). An emigré "Yugoslav Committee" was formed and worked for the unification of the South Slavs with the Kingdom of Serbia. In 1917, an agreement was reached on the formation of a "Kingdom of Serbs, Croats, and Slovenes" upon the defeat of Austro-Hungary.

### Royal Yugoslavia

The unification of Croatia and the new "Kingdom of Serbs, Croats, and Slovenes" on 1 December 1918 was flawed by the inability to work out an acceptable compromise between the Serbs and Croat-Slovenes. The National Council for all Slavs of former Austro-Hungary was formed on 12 October 1918 in Zagreb (Croatia) and was chaired by Monsignor Anton Korošec, head of the Slovenian People's Party. On 29 October 1918, the National Council proclaimed the formation of a new, separate state of Slovenes, Croats, and Serbs of the former Austro-Hungary. The Zagreb Council intended to negotiate a federal type of union between the new state and the Kingdom of Serbia that would preserve the respective national autonomies of the Slovenes, Croats, and Serbs. Monsignor Korošec had negotiated a similar agreement in principle with Serbian prime minister Nikola Pašić in Geneva, but the Serbian government reneged on it. While Korošec was detained in Geneva, a delegation of the National Council went to Belgrade and submitted to Serbia a declaration expressing the will to unite with the Kingdom of Serbia, and Serbia readily agreed. On 1 December 1918, Prince Alexander of Serbia declared the unification of the "Kingdom of Serbs, Croats, and Slovenes."

The provisional assembly convened in 1918, with the addition to the Serbian parliament of representatives from the other south Slavic historical regions, while the Croatian Sabor was deprived of its authority. The elections to the Constituent Assembly were held on 28 November 1920 but the 50-member delegation of the Croatian Republican Peasant Party refused to participate. The

new Vidovdan Constitution was adopted on 28 June 1921 by a "simple majority" vote of 223 to 35, with 111 abstentions in the absence of the Croatian delegation with 50 votes.

The period between 1921 and 1929 saw a sequence of 23 governments, a parliament without both the Croatian delegation's 50 votes and the Communist Party's 58 votes (it continued its work underground). This situation assured control to the Serbian majority, but it was not possible to govern the new country effectively without the participation of the Croats, the second largest nation.

Finally, in 1925, Prime Minister Pašić invited Stjepan Radic, head of the Croatian Peasant Party, to form a government with him. However, not much was accomplished and Pašić died just a few years later. On 20 June 1928 Radic was shot in parliament by a Serbian deputy and died the next month. Riots broke out as a result of his assassination.

Dr. Vlatko Macek, the new Croatian Peasant Party leader declared that "there is no longer a constitution, but only king and people." A coalition government under Prime Minister Monsignor Anton Korošec, head of the Slovene People's Party, lasted only until December 1928. King Alexander dissolved the parliament on 6 January 1929, abolished the 1921 constitution, and established his own personal dictatorship as a temporary arrangement.

At first, most people accepted King Alexander's dictatorship as a necessity, which gave the country an opportunity to focus on building its economy from the foundation of postwar reconstruction. Royal decrees established penalties of death or 20 years in prison for terrorism, sedition, or Communist activities. All elected local councils and traditional political parties were dissolved. Freedom of the press was severely constrained and government permission was required for any kind of association. All power was centralized and exercised by the king through a council of ministers accountable only to him.

On 3 October 1929, the country was renamed the Kingdom of Yugoslavia, and the territorial regions (banovinas) were named after rivers to emphasize the king's opposition to national names. One of the consequences of the dictatorship and its harsh measures against political opposition and cultural nationalism was the emigration of some political opponents, among them some of the top leadership of the Croatian Peasant Party and the leader of the Ustaša movement, Ante Pavelic.

The new constitution, initiated by King Alexander on 3 September 1931, was in theory a return to civil liberties and freedoms of association, assembly, and expression. But in reality, all such freedoms were limited by the king's decrees that remained in force. Parliament was to consist of two houses with a council of ministers still accountable directly to the king. The Croatian opposition grew stronger, and in the winter of 1932, their Zagreb Manifesto called for the removal of Serbian hegemony, and for popular sovereignty. In reaction, the regime interned or imprisoned political opponents. Croatia was seething with rebellion, and the sentence of three years in prison for opposition leader Dr. Macek would have sparked an open revolt, were it not for the danger of Fascist Italy's intervention.

The worldwide economic depression hit Yugoslavia hard in 1932. Opposition continued to grow to the king's dictatorship, which had not proffered any solutions to the so-called Croatian question. In late 1934, the king planned to release Dr. Macek from prison, reintroduce a real parliamentary system, and try to reach some compromise between Serbs and Croats. Unfortunately, King Alexander was assassinated in Marseille on 9 October 1934 by agents of the Ustaša group, which was trained in terrorism in Hungary with Mussolini's support. Prince Paul, King Alexander's cousin, headed the interim government, releasing Dr. Macek and other political leaders, but otherwise continuing the royal dictatorship. On 5 May 1935, the elections for a new parliament were so shamefully improper that a boycott

of parliament began. Prince Paul consulted with Macek, and a new government of reconstruction was formed by Milan Stojadinovic. The new government initiated serious discussions with Macek on a limited autonomous Croatian entity that would be empowered on all matters except the armed forces, foreign affairs, state finance, customs, foreign trade, posts, and telegraphs.

Since 1937, the thorniest issue discussed had been the make-up of the federal units. Serbs wanted to unite with Macedonia, Vojvodina, and Montenegro. Croatia wanted Dalmatia and a part of Vojvodina. Slovenia was recognized as a separate unit, but Bosnia and Herzegovina posed a real problem, with both Croats and Serbs claiming ownership over a land that contained a substantial minority of Bosnian Muslims. Meanwhile, intense trade relations with Germany and friendlier relations with Italy were bringing Yugoslavia closer to those countries. Adolph Hitler's annexation of Austria and Czechoslovakia in 1938 made it imperative that Yugoslavia resolve its internal problem before Hitler and Mussolini attempted to destabilize and conquer Yugoslavia.

Stojadinovic resigned, and Prince Paul appointed Dragiša Cvetkovic as prime minister, charging him with the task of reaching a formal agreement with the Croatian opposition. The agreement was concluded on 26 August 1939. Macek became the new vice premier, a territorial region of Croatia was established that included Dalmatia and western Herzegovina, and the traditional Sabor of Croatia was revived. But autonomy for Croatia was not received well by most of Serbia. Concerned with the status of Serbs in Croatia, Serbia was anxious to incorporate most of Bosnia and Herzegovina. Even less satisfied was the extreme Croatian nationalist Ustaša movement, whose goal was an independent greater Croatia inclusive of Bosnia and Herzegovina. For the Ustaša, this goal was to be achieved by any means and at any cost, including violence and support from foreign powers. Tensions between the extremes of the failed Yugoslavia had seemingly reached the boiling point.

## World War II

Meanwhile, the clouds of World War II had gathered with Italy's takeover of Albania and its war with Greece, and Hitler's agreement with Stalin followed by his attack on Poland in the fall of 1939, resulting in its partitioning. Hungary, Romania, and Bulgaria had joined the Axis powers and England and France had entered the war against Germany and Italy. With the fall of France in 1940, Hitler decided to assist Mussolini in his war with Greece through Bulgaria, and therefore needed Yugoslavia to join the Axis so Germany would be assured of ample food and raw materials.

The Yugoslav Government had limited choices—either accept the possibility of immediate attack by Germany, or join the Axis, with Hitler's assurance that no German troops would pass through Yugoslavia towards Greece. The regent was aware of Yugoslavia's weak defense capabilities and the inability of the Allies to assist Yugoslavia against the Axis powers, despite security agreements with Britain and France. Yugoslavia signed a treaty with Hitler on 26 March 1941 and on 27 March a coup d'état by Serbian military officers forced the regent to abdicate. The military declared Prince Peter the new king, and formed a government with General Dušan Simovic as premier and Dr. Macek as vice-premier. The new government tried to temporize and placate Hitler, who was enraged by the deep anti-German feeling of the Yugoslav people who shouted in demonstrations, "Bolje rat nego pakt" (Better war than the pact). Feeling betrayed, Hitler unleashed the German fury on Yugoslavia on 6 April 1941 by bombing Belgrade and other centers without any warning or formal declaration of war.

The war was over in 11 days, with the surrender signed by the Yugoslav Army Command while the Yugoslav government (with

young King Peter II) fled the country for allied territory and settled in London. Yugoslavia was partitioned among Germany, Italy, Hungary, Bulgaria, and Italian-occupied Albania, while Montenegro, under Italian occupation, was to be restored as a separate kingdom. Croatia was set up as an independent kingdom with an Italian prince to be crowned Tomislav II. Ante Pavelic was installed by the Italians and Germans as head of independent Croatia (after Dr. Macek had declined Hitler's offer). Croatia was forced to cede part of Dalmatia, with most of its islands and the Boka Kotorska area, to Italy. In exchange, Croatia was given Bosnia and Herzegovina and the Srijem region up to Belgrade.

On 10 April 1941, the "resurrection of our independent State of Croatia" was proclaimed in Zagreb by Slavko Kvaternik for Ante Pavelic, who was still in Italy with some 600 of his Ustaše. With Pavelic's arrival in Zagreb five days later, the Ustaša regime was established, with new laws that expressed the basic Ustaša tenets of a purely Croatian state viewed as the bulwark of Western civilization against the Byzantine Serbs. Slavko Kvaternik explained how a pure Croatia would be built—by forcing one-third of the Serbs to leave Croatia, one-third to convert to Catholicism, and one-third to be exterminated. Soon Ustaša bands initiated a bloody orgy of mass murders of Serbs unfortunate enough not to have converted or left Croatia on time. The enormity of such criminal behavior shocked even the conscience of German commanders, but Pavelic had Hitler's personal support for such actions which resulted in the loss of lives of hundreds of thousands of Serbs in Croatia and Bosnia and Herzegovina. In addition, the Ustaša regime organized extermination camps, the most notorious one at Jasenovac where Serbs, Jews, Gypsies, and other opponents were massacred in large numbers. The Serbs reacted by forming their own resistance groups ("Cetniks") or by joining with the Communist-led partisan resistance, and thus struck back at the Ustaša in a terrible fratricidal war encouraged by the Germans and Italians.

The Ustaša regime organized its armed forces into the Domobrani, its Ustaša shock troops, and the local gendarmerie. Its attempt at organizing the Croatian people in the fascist mode failed, however. Most Croats remained faithful to the Croatian Peasant Party Democratic principles, or joined the Partisan movement led by Josip Broz-Tito that offered a federal political program. With respect to Bosnia and Herzegovina, the Ustaša regime never attained real control. The continuous fighting generated by Cetniks and Partisans fighting one another while being pursued by the Ustaša, the Germans, and the Italians made it impossible for the Ustaša to dominate. Most Croats rejected (and deeply resented) the trappings of an imported Fascist mystique and the abuse of their Catholic faith as a cover or justification for the systematic slaughter of their Serbian neighbors.

By the spring of 1942, the Ustaša regime began to retreat from its policy and practice of extermination of Serbs. But the terrible harm was done, and one consequence was the deep split between the Serbian members and their Croatian colleagues within the cabinet of the Yugoslav government-in-exile. The Serbs held the entire Croatian nation accountable for the Ustaša massacres, and reneged on the 1939 agreement establishing the Croatian Banovina as the basis for a federative reorganization in a postwar Yugoslavia. This discord made the Yugoslav government-in-exile incapable of offering any kind of leadership to the people in occupied Yugoslavia. The fortunes of war and diplomacy favored the Communist Partisans—after Italy's surrender in September 1943, it handed over to the Partisans armaments and supplies from some ten Italian divisions. More and more Croats left their homeguard, and even some Ustaša units, to join the Partisans. Some Ustaša leaders, on the other hand, conspired against Pavelic in order to negotiate with the allies for recognition of the "independent" state of Croatia. But they were caught and executed in the summer of 1944.

With the entry of Soviet armies into Yugoslav territory in October 1944, the Communist Partisans swept over Yugoslavia in pursuit of the retreating German forces. Pavelic and his followers, along with the Croatian homeguard units, moved north to Austria at the beginning of May 1945 to escape from the Partisan forces and their retaliation. The Partisans took over Croatia, launching terrible retaliation in the form of summary executions, people's court sentences, and large scale massacres, carried out in secret, of entire homeguard and other Ustaša units.

### Communist Yugoslavia

Such was the background for the formation of the second Yugoslavia led by Tito as a Federative People's Republic of five nations—Slovenia, Croatia, Serbia, Macedonia, Montenegro—with Bosnia and Herzegovina as a buffer area with its mix of Serbs, Muslims, and Croats. The problem of large Hungarian and Muslim Albanian populations in Serbia was solved by creating the autonomous regions of Vojvodina (Hungarian minority) and Kosovo (Muslim Albanian majority) that assured their political and cultural development. Tito attempted a balancing act to satisfy most of the nationality issues that were still unresolved from the first Yugoslavia, and decades of ethnic and religious conflict.

In pre-1941 Yugoslavia, Serbs had enjoyed a controlling role. After 1945 the numerically stronger Serbs had lost the Macedonian area they considered Southern Serbia, lost the opportunity to incorporate Montenegro into Serbia, and had lost direct control over both the Hungarian minority in Vojvodina and Muslim Albanians of Kosovo, which had been viewed as the cradle of the Serbian nation since the Middle Ages. They could no longer incorporate into Serbia the large Serbian-populated areas of Bosnia, and had not obtained an autonomous region for the large minority of Serbian population within the Croatian Republic. The Croats—while gaining back from Hungary the Medjumurje area and from Italy the cities of Rijeka (Fiume), Zadar (Zara), some Dalmatian islands, and the Istrian Peninsula—had lost the Srijem area to Serbia, and Bosnia and Herzegovina. In addition, the Croats were confronted with a deeply resentful Serbian population that became ever more pervasive in public administrative and security positions.

The official position of the Marxist Yugoslav regime was that national rivalries and conflicting interests would gradually diminish through their sublimation into a new Socialist order. Without capitalism, nationalism was supposed to wither away. Therefore, in the name of unity and brotherhood, nationalistic expression of concern was prohibited, and repressed by the dictatorial and centralized regime of the League of Yugoslav Communists acting through the Socialist Alliance as its mass front organization. After a short postwar coalition government, the elections of 11 November 1945, boycotted by the non-communist coalition parties, gave the communist People's Front 90% of the votes. A constituent assembly met on 29 November, abolished the monarchy, and established the Federative People's Republic of Yugoslavia. In January 1946, a new constitution was adopted, based on the 1936 Soviet constitution.

The Communist Party of Yugoslavia took over total control of the country and instituted a regime of terror through its secret police. To destroy the bourgeoisie, property was confiscated, and the intelligentsia were declared "enemies of the people," to be executed or imprisoned. Large enterprises were nationalized, and forced-labor camps were formed. The church and religion were persecuted, properties confiscated, religious instruction and organizations banned, and education used for Communist indoctrination. The media was forced into complete service to the totalitarian regime, and education was denied to "enemies of the people."

The expulsion of Yugoslavia from the Soviet-dominated Cominform Group in 1948, engineered by Soviet leader Joseph

Stalin, was actually a blessing for Yugoslavia. Yugoslavia's "road to Socialism" evolved quickly in response to Stalin's pressures and Yugoslavia's need to perform a balancing act between the North Atlantic Treaty Organization (NATO) and the Soviet bloc. Tito also pushed the nationalization of the economy through a policy of forced industrialization supported by the collectivization of agriculture.

By the 1950s, Yugoslavia had initiated the development of what would become its internal trademark: self-management of enterprises through workers' councils and local decision-making as the road to Marx's "withering away of the state." Following the failure of the first five-year plan (1947–51), the second five-year plan (1957–61) was completed in four years by relying on the well-established self-management system. Economic targets were set from the local to the republic level and then coordinated by a federal planning institute to meet an overall national economic strategy. This system supported a period of very rapid industrial growth in the 1950s. But a high consumption rate encouraged a volume of imports financed by foreign loans that exceeded exports. In addition, inefficient and low productivity industries were kept in place through public subsidies, cheap credit, and other artificial protective measures, leading to a serious crisis by 1961. Reforms were necessary and, by 1965, market socialism was introduced with laws that abolished most price controls and halved import duties while withdrawing export subsidies. The agricultural reform of 1945–46 limited private ownership to a maximum of 35 ha (85 acres). The limited free market (after the initial forced delivery of quotas to the state at very low prices) had to be abandoned because of resistance by the peasants. The actual collectivization efforts were initiated in 1949 using welfare benefits and lower taxes as incentives, along with direct coercion. But collectivization had to be abandoned by 1958 simply because its inefficiency and low productivity could not support the concentrated effort of industrial development.

The government relaxed its restrictions to allow labor migration, particularly large from Croatia to West Germany, where workers were needed for its thriving economy. Foreign investment was encouraged (up to 49%) in joint enterprises, and barriers to the movement of people and exchange of ideas were largely removed. The role of trade unions continued to include transmission of instructions from government to workers, allocation of perks, the education/training of workers, monitoring of legislation, and overall protection of the self-management system. Strikes were legally allowed, but the 1958 miners' strike in Trbovlje, Slovenia, was not publicly acknowledged and was suppressed. After 1958, strikes were tolerated as an indication of problems to be resolved.

After the split from the Cominform, Yugoslavia began also to develop a foreign policy independent of the Soviet Union. By mid-1949, Yugoslavia ceased its support of the Greek Communists in their civil war against the then-Royalist government of Greece. In October 1949, Yugoslavia was elected to one of the nonpermanent seats on the UN Security Council and openly condemned Communist-supported North Korea's aggression towards South Korea. Following Nikita Khrushchev's 1956 denunciation of Stalin, Tito intensified his work on developing the movement of nonaligned "third world" nations. This would become Yugoslavia's external trademark, in cooperation with Nehru of India, Nasser of Egypt, and others. With the September 1961 Belgrade summit conference of nonaligned nations, Tito became the recognized leader of the movement. The nonaligned position served Tito's Yugoslavia well by allowing Tito to draw on economic and political support from the Western powers while neutralizing aggressive behavior from the Soviet bloc.

While Tito had acquiesced, reluctantly, to the 1956 Soviet invasion of Hungary for fear of political chaos and its liberalizing impact on Yugoslavia, he condemned the Soviet invasion of Dubcek's Czechoslovakia in 1968, as did Romania's Ceausescu,

both fearing their countries might be the next in line for “corrective” action by the Red Army and the Warsaw Pact. Just before his death on 4 May 1980, Tito also condemned the Soviet invasion of Afghanistan. Yugoslavia actively participated in the 1975 Helsinki Conference and Agreements, and the first 1977–78 review conference that took place in Belgrade, even though Yugoslavia’s one-party communist regime perpetrated and condoned numerous human rights violations.

The debates of the 1960s led to a closer scrutiny of the Communist experiment. The 1967 Declaration in Zagreb, claiming a Croatian linguistic and literary tradition separate from the Serbian one, undermined the validity of the “Serb-Croatian” language and a unified Yugoslavian linguistic heritage. Also, Kosovo Albanians and Montenegrins, along with Slovenes and Croats, began to assert their national rights as superior to the right of the Yugoslavian federation. The eighth congress of the League of Communists of Yugoslavia (LCY) in December 1964 acknowledged that ethnic prejudice and antagonism existed in socialist Yugoslavia, and that Yugoslavia’s nations were disintegrating into a socialist Yugoslavism. Thus the republic, based on individual nations, became an advocate of a strong federalism that devolved and decentralized authority from the federal to the republic level. Yugoslav Socialist Patriotism was defined as a feeling for both national identity and for the overall socialist self-management framework of Yugoslavia, despite the signs of a deeply divided country.

As the Royal Yugoslavism had failed in its assimilative efforts, so did the Socialist Yugoslavism fail to overcome the forces of nationalism. In the case of Croatia, there were several key factors sustaining the attraction to its national identity: more than a thousand years of its historical development, the carefully nurtured tradition of Croatian statehood, a location bridging central Europe and the Balkan area, an identification with Western European civilization, and the Catholic religion with the traditional role of Catholic priests (even under the persecutions by the Communist regime). In addition, Croatia had a well-developed and productive economy with a standard of living superior to most other areas of the Yugoslav Federation other than Slovenia. This generated a growing resentment against the forced subsidizing by Croatia and Slovenia of less developed areas, and for the buildup of the Yugoslav army. Finally, the increased political and economic autonomy enjoyed by the Republic of Croatia after the 1974 constitution and particularly following Tito’s death in 1980, added impetus to the growing Croatian nationalism.

### Croatian Spring

The liberal bloc (Slovenia, Croatia, Macedonia, Vojvodina) prevailed over the conservative group, and the reforms of 1965 did away with central investment planning and political factories. The positions of the two blocs hardened into a national-liberal coalition that viewed the conservative, centrist group led by Serbia as the Greater Serbian attempt at majority domination. The devolution of power in economic decision making, spearheaded by the Slovenes, assisted in the federalization of the League of Communists of Yugoslavia as a league of quasi-sovereign republican parties. Under strong prodding from the Croats, the party agreed in 1970 to the principle of unanimity for decision making. In practice, this meant each republic had veto power. However, the concentration of economic resources in Serbian hands continued, with Belgrade banks controlling half of total credits and some 80% of foreign credits. Fear of Serbian political and cultural domination continued, particularly with respect to Croatian language sensitivities aroused by the use of the Serbian version of Serbo-Croatian as the norm, with the Croatian version as a deviation.

The language controversy thus exacerbated the economic and political tensions between Serbs and Croats, spilling easily into

ethnic confrontations. To the conservative centrists the devolution of power to the republic level meant the subordination of the broad Yugoslav and Socialist interests to the narrow nationalist interest of national majorities. With the Croat League of Communists taking the liberal position in 1970, nationalism was rehabilitated. Thus the “Croatian Spring” bloomed and impacted all the other republics of Yugoslavia. Meanwhile, through a series of constitutional amendments in 1967–68 that limited federal power in favor of republics and autonomous provinces, the federal government came to be viewed by liberals as an inter-republican problem-solving mechanism bordering on a confederalist arrangement. A network of inter-republican committees established by mid-1971 proved to be very efficient, resolving a large number of difficult issues in a short time. The coalition of liberals and nationalists in Croatia, however, also generated sharp condemnation in Serbia, where its own brand of nationalism grew stronger, but as part of a conservative-centrist alliance. Thus, the liberal/federalist versus conservative/centrist conflict became entangled in the rising nationalism within each opposing bloc.

Particularly difficult were the situations in Croatia and Serbia because of their minorities issues. Serbs in Croatia sided with the Croat conservatives and sought a constitutional amendment guaranteeing their own national identity and rights. In the process, the Serbs challenged the sovereignty of the Croatian nation. The conservatives prevailed, and the amendment declared that “the Socialist Republic of Croatia (was) the national state of the Croatian nation, the state of the Serbian nation in Croatia, and the state of the nationalities inhabiting it.”

Meanwhile, Slovenia, not burdened by large minorities, developed in a liberal and nationalist direction. This fostered an incipient separatist sentiment opposed by both the liberal and conservative party wings. Led by Stane Kavcic, head of the Slovenian Government, the liberal wing gained as much political local latitude from the Federal level as possible during the “Slovenian Spring” of the early 1970s. By the summer of 1971, the Serbian Party leadership was pressuring President Tito to put an end to what was in their view the dangerous development of Croatian nationalism. While Tito wavered because of his support for the balancing system of autonomous republic units, the situation quickly reached critical proportions. Croat nationalists, complaining about discrimination against Croats in Bosnia and Herzegovina, demanded the incorporation of western Herzegovina into Croatia. Serbia countered by claiming southeastern Herzegovina for itself. Croats also advanced demands for a larger share of their foreign currency earnings, the issuance of their own currency, their own national bank that would directly negotiate foreign loans, the printing of Croatian postage stamps, to a Croatian army, to recognition of the Croatian Sabor as the highest Croatian political body and, finally, to Croatian secession and complete independence.

Confronted with such intensive agitation, the liberal Croatian Party leadership could not back down and did not restrain the public demands nor the widespread university students’ strike of November 1971. This situation caused the loss of support from the liberal party wings of Slovenia and even Macedonia. Tito intervened, condemning the Croatian liberal leadership on 1 December 1971, while supporting the conservative wing. The liberal leadership group resigned on 12 December 1971. When Croatian students demonstrated and demanded an independent Croatia, the Yugoslav army was ready to move in if necessary. A wholesale purge of the party liberals followed with tens of thousands expelled. Key functionaries lost their positions, several thousands were imprisoned (including Franjo Tudjman who later became President of independent Croatia), and leading Croatian nationalist organizations and their publications were closed. On 8 May 1972 the Croatian Party also expelled its liberal wing leaders and the purge of nationalists continued through 1973.

However, the issues and sentiments raised during the “Slovene and Croat Springs” of 1969–71 did not disappear. Tito and the conservatives were forced to satisfy nominally some demands, and the 1974 Constitution was an attempt to resolve the strained inter-republican relations as each republic pursued its own interests over and above any conceivable overall Yugoslav interest. The repression of liberal-nationalist Croats was accompanied by the growing influence of the Serbian element in the Croatian Party (24% in 1980) and police force (majority). This influence contributed to the ongoing persecution and imprisonments of Croatian nationalists into the 1980s. Tito’s widespread purges of the “Croatian Spring” movement’s leadership and participants in 1971 had repressed the reawakened Croatian nationalism, but could not eliminate it. Croatian elites had realized the disadvantages of the Croatian situation and expressed it in 1970–71 through the only channel then available—the Communist Party of Croatia and its liberal wing. With the purges, this wing became officially silent in order to survive, but remained active under the surface, hoping for its turn. This came with the 1974 constitution and its devolution of power to the republic level, and was helped along by the growing role of the Catholic church in Croatia. The Catholic church, as the only openly organized opposition force in the country, became the outspoken defender of Croatian nationalism. As a result, Catholic leaders and priests were subjected to persecution and furious attacks by the government.

#### Yugoslavia—a House Divided

After Tito’s death in 1980, relations between the Croatian majority and the Serbian minority became strained. Tito had set up a rotating Presidency in which the leaders of each of the six republics and two autonomous regions of Serbia would have the Yugoslavian Presidency for one year at a time. Unfortunately, the Serbian President that first held the office was not recognized by the Croats. Demands for autonomy by the half million Serbs in Croatia were brushed aside by the Croats, who pointed out the absence of such autonomy for Croats in Vojvodina and Bosnia and Herzegovina. Thus the conservatives’ control of the League of Communist of Croatia between 1972 and 1987 could not prevent the resurfacing of the Croat question, which led in a few years to Croatia’s disassociation from Yugoslavia and to war.

As the Communist parties of the various republics kept losing in membership and control, the clamoring for multi-party elections became irresistible. The first such elections were held on 8 April 1990 in Slovenia where a coalition of non-Communist parties (Demos) won, and formed the first non-Communist Government since 1945. In Croatia, the Croatian Democratic Union (HDZ) under the leadership of Dr. Franjo Tudjman, had worked illegally since 1989 and had developed an effective network of offices throughout Croatia and in Vojvodina and Bosnia and Herzegovina. The HDZ had also established its branches abroad from where, particularly in the US, it received substantial financial support. Thus, in the elections of late April-early May 1990 the Croatian Democratic Union was able to obtain an overwhelming victory with 205 of 356 seats won and a majority in each of the three chambers of the Croatian Assembly. In the most important Socio-Political Chamber, Dr. Tudjman’s party won 54 of the 80 seats, with the Communists and their allies obtaining only 26 seats. On 30 May 1990, Dr. Tudjman was elected President of Croatia with 281 of 331 votes and Stjepan Mesic became Prime Minister. Krajina Serbs voted either for the former Communists or for their new Serbian Democratic Party (SNS) led by Jovan Raškovic. The Serbian Democratic Party gained five delegates to the parliament and became the main voice of the Serbs in Croatia.

The overwhelming victory of Dr. Tudjman’s party made the Serbs very uncomfortable. Their traditional desire for closer political ties to Serbia proper, the prospect of losing their

overrepresentation (and jobs) in the Croatian Republic’s administration, and fear of the repetition of the World War II Ustaša- directed persecutions and massacres of Serbs made them an easy and eager audience for Slobodan Milošević’s policy and tactics of unifying all Serbian lands to Serbia proper. Tensions between Croats and Serbs increased when Tudjman proposed constitutional amendments in June 1990 defining Croatia as the Sovereign State of the Croats and other nations and national minorities without specifically mentioning the Serbs of Croatia. The Serbs feared they would be left unprotected in an independent Croatia and therefore strongly supported Milošević’s centralist policies. This fear, and the anti-Croatian propaganda from Belgrade that claimed the revival of the Ustaša, and called upon Serbs to defend themselves, caused Jovan Raškovic to reject the invitation from Tudjman to join the new government as its deputy prime minister. Instead, Raškovic ended the participation in legislative activities of the five Serbian Democratic Party deputies. At the end of August 1990, a new Serbian National Council adopted a “Declaration on the Sovereignty and Autonomy of the Serbian People” implying the need for cultural autonomy for the Serbs if Croatia were to remain a member of the Yugoslav Federation, but claiming political autonomy for the Serbs if Croatia were to secede from the Yugoslav Federation. A referendum held on 18 August 1990 by Serbs in Croatia gave unanimous support to their “Declaration on Sovereignty” as the foundation for the further development of their Knin Republic—as their council of Serbian-majority communes was called, from the name of the Dalmatian city of Knin where it was based.

The Tudjman government refrained from taking any action against the Knin Republic in order to avoid any reason for interference by the Yugoslav Army. But Tudjman made very clear that territorial autonomy for the Serbs was out of the question. When in December 1990 Croatia proclaimed its sovereignty and promulgated its new constitution, the Serbs of Croatia established a “Serbian Autonomous Region,” immediately invalidated by the constitutional court of Croatia. Then in February 1991, Croatia and Slovenia declared invalid all federal laws regarding the two republics. On 28 February, the Krajina Serbs declared their autonomy in response to Croatia’s call for disassociation from the Yugoslav Federation. Violence spread in many places with clashes between the Serbian paramilitary and special Croatian police units with Yugoslav army units ordered to intervene. The Yugoslav Army was also used in Serbia in March 1991 to aid Serbian authorities against large Serbian opposition demonstrations in Belgrade. The sight of Yugoslav tanks in the streets of Belgrade, with two dead and some 90 wounded, signaled the decision of the Yugoslav Army to defend Yugoslavia’s borders and oppose interethnic clashes that could lead to a civil war. Clearly the Serbian leadership and the Yugoslav army top command (mostly Serbian) had cemented their alliance, with the goal of preserving Yugoslavia as a centralized state through pressuring Slovenia and Croatia into disarming their territorial defense units and by threatening forceful intervention in case of their refusal. But Slovenia and Croatia continued to buy arms for their defense forces, and to proclaim their intentions to gain independence.

At the end of March 1991, there were again bloody armed clashes between the Krajina Serbs and Croatian police, and again the Yugoslav army intervened around the Plitvice National Park, an area the Serbs wanted to join to their Knin Republic. For President Tudjman this Serbian action was the last straw—Croatia had been patient for eight months, but could wait no longer. The overall determination of Serbia to maintain a unitary Yugoslavia hardened, as did the determination of Slovenia and Croatia to attain their full independence. This caused the Yugoslav army leadership to support Serbia and Slobodan Milošević, who had made his position clear by the spring of 1991 on the potential unilateral separation of Slovenia, Croatia, and

Bosnia and Herzegovina. Since there was no substantial Serbian population in Slovenia, its disassociation did not present a real problem for Milošević. However, separation by Croatia and Bosnia and Herzegovina would necessitate border revisions in order to allow for lands with Serbian populations to be joined to Serbia.

### Independence

A last effort to avoid Yugoslavia's disintegration was made by Bosnia and Herzegovina and Macedonia with their 3 June 1991 compromise proposal to form a Community of Yugoslav Republics whereby national defense, foreign policy, and a common market would be administered centrally while all other areas—other than armed forces and diplomatic representation—would fall into the jurisdiction of the member states. But it was already too late. Serbia opposed the federal nature of the proposal and this left an opening for the establishment of separate armed forces. In addition, Milošević and the Yugoslav army had already committed to the support of the Serbs' revolt in Croatia. In any case, both Milošević and Tudjman were past the state of salvaging Yugoslavia. They met in Split on 12 June 1991 to discuss how to divide Bosnia and Herzegovina into ethnic cantons.

The federal government of Yugoslavia ceased to exist when its last president (Stjepan Mešić, Croatia's future President) and prime minister (Ante Marković), both Croatian, resigned on 5 December 1991. Both Croatia and Slovenia reaffirmed their decision to disassociate from federal Yugoslavia after a three-month moratorium, in the Brioni Declaration of 7 July 1991. The European Community held a conference on Yugoslavia, chaired by Lord Carrington, where a series of unsuccessful cease-fires was negotiated for Croatia. The conference also attempted to negotiate new arrangements based on the premise that the Yugoslav Federation no longer existed, a position strongly rejected by Serbia, who viewed with great suspicion Germany's support for the independence of Slovenia and Croatia. Germany granted recognition to Slovenia and Croatia on 18 December 1991, while other European community members and the US followed suit. The European community continued its efforts to stop the killing and destruction in Croatia, along with the UN special envoy, Cyrus Vance, who was able to conclude a peace accord on 3 January 1992 calling for a major UN peacekeeping force in Croatia. Part of the accord was also an agreement by the Serbian side to hand over to the UN units their heavy weapons and to allow the return to their homes of thousands of refugees. The international community stood firmly in support of the preservation of Yugoslavia. The United States and the European community had indicated that they would refuse to recognize the independence of Slovenia and Croatia if they unilaterally seceded. At the same time, Slovenia and Croatia defined their separation as a disassociation by sovereign nations, and declared their independence on 25 June 1991. Milošević was prepared to let Slovenia go, but Croatia still held around 600,000 ethnic Serbs. Milošević knew that a military attack on a member republic would deal a mortal blow to both the idea and the reality of a "Yugoslavia" in any form. Thus, following the Yugoslav Army's attack on Slovenia on 27 June 1991, Milošević use of the Yugoslav army and its superior capabilities toward the goal of establishing the Serbian autonomous region of Krajina in Croatia. Increased fighting from July 1991 caused the tremendous destruction of entire cities (for example, Vukovar) and large scale damage to medieval Dubrovnik. Croatia had been arming since 1990 with the financial aid of émigrés, and thus withstood fighting over a seven-month period, suffering some 10,000 deaths, 30,000 wounded, over 14,000 missing and lost to the Krajina Serbs (and to the Yugoslav army). Croatia also lost about one-third of its territory—from Slavonia to the west and around the border with Bosnia and south to northern Dalmatia.

By late 1992, rebel Serbs controlled about one-third of Croatia's territory. In 1993, the Krajina Serbs voted to integrate with Serbs in Bosnia and Serbia. Although the Croatian government and the Krajina Serbs agreed to a cease-fire in March 1994, further talks disintegrated. This portion of land was strategically important to Croatia because it held the land routes to the Dalmatian coast (supporting the once-thriving tourist industry), the country's petroleum resources, and the access route from Zagreb into Slavonia. Also in 1994, the Croatian government agreed to give up its plan to partition Bosnia with Serbia. In return for US political support (which included military training and equipment), Croatia began cooperating with the Bosnian Muslims and recognized the sovereignty of Bosnia and Herzegovina.

In May 1995, the Croatian army—in a mission it called "Operation Storm"—quickly occupied western Slavonia, and by August 1995, the Krajina region was under Croatian control. International reaction to the military mission was mild, and was largely judged as vindication for earlier Serb aggression. An estimated 200,000 Serbs fled from the region their ancestors had occupied for 200 years. Before the Croatian army could move into eastern Slavonia, the government halted the mission, upon insistence by the US. The cessation of the Croatian military campaign before it reached eastern Slavonia probably prevented a future round of revenge killings.

Eastern Slavonia was then put under UN control, with a force of about 5,500 military and police peacekeepers. With the signing of a basic agreement between the Croatian government and the Eastern Slavonia Serbs at the Dayton Peace Accords in Dayton, Ohio, in 1995, the UN had the support to establish the UN Transitional Administration for Eastern Slavonia (UNTAES) on 15 January 1996. The UNTAES established a Transitional Police Force, in which Serb and Croat police forces jointly administered over the region, in order to prepare the area for reversion to Croatian control in July 1997. On 15 January 1998, any Serbs remaining in eastern Slavonia became Croatian citizens. Also, the Serbs that fled Croatia for fear of persecution were invited back into the country on 26 June 1998, when the Croatian Parliament adapted the Croatian Government's Return Program.

The 1997 elections that supported the reigning President Tudjman and his HDZ party were considered "fundamentally flawed." The tight grip that Tudjman kept on the Croatian nation through control of the media, police and judicial system were considered not only undemocratic, but unconstitutional. In 1999, President Tudjman announced that "National issues are more important than democracy," alienating many Croatians and concerning international observers. Tudjman cooperated with some requests of the International Criminal Tribunal for the Former Yugoslavia (ICTY), but refused to comply with others, especially the insistence on field investigations into the military operations of the 1990s. The ruling party agreed in 1999 to hold new parliamentary elections in January 2000, but these were scheduled too late for Tudjman to organize his resistance. He died on 10 December 1999, and Speaker of Parliament Vlatko Pavletić assumed interim power. On 18 February 2000, Stjepan Mešić was elected President of Croatia, signaling a new era in Croatian history that promised to be more European and more peaceful. The parliamentary elections held on 3 January resulted in an end to the rule of the HDZ party, which won only 46 of 151 seats in the House of Representatives; Social Democratic Party leader Ivica Račan led a center-left coalition government as prime minister. Constitutional reforms later that year reduced the powers exercised by the president, and replaced the semi-presidential system of government with a parliamentary one. In 2001, parliament approved a constitutional amendment abolishing its upper house, the House of Counties. The HDZ branded the government's move as politically motivated, as it



controlled the upper house, and had been able to delay reform-minded legislation.

In September 2001, the ICTY indicted Milošević for war crimes and crimes against humanity committed in the war in Croatia. He went on trial in The Hague in February 2002. However, in September 2002, under pressure from nationalists, the Croatian government declined to turn over to the Hague tribunal former army chief-of-staff Janko Bobetko, indicted for war crimes. In March 2003, former Maj. Gen. Mirko Norac was sentenced in a Croatian court to 12 years in prison for orchestrating the killings of Serb civilians in 1991. He was the most senior Croatian army officer to be convicted for war crimes in a Croatian court. Norac had given himself up to Croatian authorities in March 2001 on the understanding that he would not be extradited to the ICTY.

In February 2003, Croatia submitted its application for membership to the EU; it concluded its Stabilization and Association Agreement (SAA) with the EU in May 2001. It is an aspirant for NATO membership as well.

### 13 GOVERNMENT

Croatia is a democratic republic with a president and parliamentary system of government. The parliament of Croatia, formed on 30 May 1990, adopted a new constitution on 22 December 1990. The executive authority is held by the president, elected for five years, and a government cabinet headed by the prime minister. Constitutional reforms in 2000 significantly reduced the powers exercised by the president. However, the president remains the supreme commander of the armed forces, and participates in foreign and national security policy decision-making. The constitutional court assures legality. In April 2003, the president was Stjepan Mesić, and the PM was Ivo Račan.

In March 2001, amendments to the constitution abolished the upper house of parliament (House of Counties) in what had been a bicameral legislature (also including the lower house, or House of Representatives). The unicameral parliament, known as the Sabor (Assembly), has 151 members elected for four-year terms. Parliament passed a package of electoral law changes in April 2003 that increased the number of seats in parliament reserved for minorities from five to eight. The threshold that parties must cross for representation in parliament is 5% of the turnout in each of the 10 electoral districts. The prime minister is nominated by the president in line with the balance of power in the Assembly. Domestic policy-making is the responsibility of parliament.

### 14 POLITICAL PARTIES

In the presidential elections of May 1997, Tudjman, founder of the Christian Democratic Union (HDZ) in 1988, won a second term as president of Croatia, with 61.2% of the vote. International monitors, however, condemned the elections as seriously biased in favor of the incumbent. Zdravko Tomac of the socialist Social Democrat Party won 21.1% of the vote, and Vlado Gotovac of the moderate Social Liberal Party received 17.7%. After the death of Tudjman at the end of 1999, presidential elections were held in January and February 2000. Thirteen candidates successfully registered for the election. Stjepan Mesić of the Croatian People's Party (HNS), supported by the Croatian Peasant Party (HSS)/Istrian Democratic Sabor (IDS)/LS liberal coalition, defeated rival Dražen Budiša of the Social Democratic Party (SDP)/Croatian Social Liberal Party (HSL) coalition, 41.1% to 27.7% in the first round, with Croatian Democratic Union (HDZ) candidate Mate Granić gaining 22.5% of the vote, and 56% to 44% in the second round of the ballot. Mesić won in 17 out of 21 counties. Voter turnout in round one was 63% and 61% in round two.

In parliamentary elections held on 3 January 2000, the center-left SDP/ HSL coalition won 71 of 151 seats in the House of

Representatives (now Assembly); the HDZ was roundly defeated, gaining only 46 seats. The United List coalition (composed of the HSS, IDS, LS, HNS, and Croatian Social Democrats' Action or ASH), won 25 seats. The two coalitions took control of parliament from the HDZ. Ivo Račan became prime minister.

### 15 LOCAL GOVERNMENT

Local government in Croatia consists of municipalities that are grouped into 20 counties and 1 city. Citizens are guaranteed the right to local self-government with competencies to decide on matters, needs, and interest of local relevance. Counties consist of areas determined by history, transportation, and other economic factors. The 20 counties are: Zagreb, Kradina-Zagorje, Sisacko-Moslavacka, Karlovac, Varazdin, Koprivnica-Krizevci, Bjelovar-Bilogora, Hrvatsko Primorje-Gorski Kotar, Lika-Senj, Virovitica-Podravina, Požega-Slavonija, Slavonski Brod-Posavina, Zadar-Knin, Osijek-Baranja, Šibenik, Vukovar-Srijem, Dalmatia-Split, Istria, Dubrovnik-Neretva, Medjmurje; and the City of Zagreb.

The mayor of Zagreb is elected by the city assembly and is approved by the president. In the local elections of 2001, tens of thousands of candidates contested 566 councils and assemblies at the municipal, town, county, and Zagreb City levels. (There are approximately 440 municipalities and 120 towns in Croatia). A total of 3.8 million voters were registered for the elections. The local election results roughly mirrored those of the parliamentary elections of 2000.

### 16 JUDICIAL SYSTEM

The judicial system is comprised of municipal and county courts, a Supreme Court, an Administrative Court, and a Constitutional Court. A High Judicial Council (made up of 11 members serving eight-year terms) appoints judges and public prosecutors. The judicial system, supervised by the justice and administration ministry, remains subject to ethnic bias and political influence, especially at the local level. Judges are prohibited constitutionally from being members of any political party.

A commercial court system handles all commercial and contractual disputes. The Supreme Court judges are appointed for an eight-year term by the Judicial Council. The Constitutional Court has 13 judges (11 prior to March 2001) who are also elected in the same manner. The military court system was abolished in November 1996. The constitution prohibits the arbitrary interference with privacy, family, home or correspondence, but these freedoms are not always protected by the government.

### 17 ARMED FORCES

The armed forces of Croatia are restricted by the Dayton Peace Accord. In 2002 the approximate number of active armed forces was 51,000 with 140,000 reserves. The army was estimated at 45,000. The air force had 3,000 members, and the navy had 3,000 sailors. Equipment included 280 main battle tanks and 24 combat aircraft. There are also 10,000 armed police. There were UN observers from 22 countries in Croatia, and the country provided support in peacekeeping missions in two foreign regions. Croatia's estimated military expenditure in 2002 was \$520 million or 2.4% of GDP.

### 18 INTERNATIONAL COOPERATION

Croatia was admitted to the UN on 22 May 1992. It is also a member of the ECE, IAEA, ICAO, IMF, OSCE, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, WMO, the WTO, and the World Bank. The UN sent peacekeeping troops to Croatia in the spring of 1992 to mediate an ongoing civil war in the region. In January 1996 the UN established the UN Transitional Administration for Eastern Slavonia (UNTAES) to supervise the peaceful reintegration of Eastern Slavonia into Croatia. Its mission ended in January 1998.

## 19 ECONOMY

Before the dissolution of the Yugoslav SFR, Croatia was its second-most prosperous and industrialized area (after Slovenia). Per capita output in Croatia was comparable to that of Portugal and about 33% above the Yugoslav average. Croatia's economic problems were largely inherited from a legacy of Communist mismanagement and a bloated foreign debt. More recently, fighting caused massive infrastructure and industrial damage to bridges, power lines, factories, buildings, and houses. Croatia's economy also had to grapple with a large population of refugees and internally displaced persons. As a result of the war and loss in output capacity, GDP fell by more than 40%.

Yet while the economy has stabilized in recent years, Croatia continues to suffer from structural problems. Under the late President Franjo Tudjman, the Croatian government regularly bailed out failing banks and businesses, regardless of their survivability. This practice needs to be stopped and industry restructured if Croatia is to progress on the path of market reforms. Although unemployment remains high and the country has a growing trade deficit, Croatia in the early 2000s experienced a growth in tourism and an increase in remittances and investment from expatriate Croats. Many small and medium-sized businesses have been privatized, and even larger state-owned industries were in the process of being restructured in 2002, such as shipbuilding. In October 2001, the government signed a Stabilization and Association Agreement with the EU, which moves the country in the direction of integration with the EU. Croatia joined the WTO in 2000. Major growth sectors are energy, tourism, construction, transportation, and telecommunications.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Croatia's gross domestic product (GDP) was estimated at \$38.9 billion. The per capita GDP was estimated at \$8,800. The annual growth rate of GDP was estimated at 3%. The average inflation rate in 2002 was 4%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 9% of GDP, industry 33%, and services 58%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$537 million or about \$115 per capita and accounted for approximately 2.8% of GDP. Worker remittances in 2001 totaled \$568.4 million. Foreign aid receipts amounted to about \$26 per capita and accounted for approximately 1% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$3,273. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 5%. Approximately 24% of household consumption was spent on food, 18% on fuel, 4% on health care, and 3% on education. The richest 10% of the population accounted for approximately 23.3% of household consumption and the poorest 10% approximately 3.7%.

## 21 LABOR

In 2001, there were about 1.7 million persons in the labor force. As of 1993, employment by sector was as follows: industry and mining, 31.1%; agriculture, 4.3%; government (including education and health), 19.1%; and other, 45.5%. In 2001, official unemployment was 20.2%.

All workers, except the military and police, may form and join unions of their own choosing without prior authorization. There are five national labor federations and associations, and unions generally are independent of the government and political parties. About 64% of the workforce was unionized in 2002. The right to strike and bargain collectively is protected by law, although there are restrictions and limitations. Nonpayment of wages continues to be a serious problem.

National minimum wage standards are in place, but are insufficient in providing a worker and family with a decent living standard. The minimum wage was set at \$211 per month in 1999, although in 2002 the average monthly wage was almost twice the minimum requirement. In 2002 the standard workweek was shortened from 42 to 40 hours. The minimum working age is 15 and this is generally enforced. There are also occupational safety and health standards, but these are not routinely respected.

## 22 AGRICULTURE

An estimated 1,442,000 ha (3,563,000 acres), or 25.8% of total land, was arable in 1998. About 9.1% of the economically active population was engaged in agriculture in 1999, when it accounted for about 9% of GDP.

The civil war reduced agricultural output in the years immediately following the breakup of the Yugoslav SFR. As stability returns, however, production of some crops show signs of recovery, as evidenced by the following summary of 1999 major crops harvested (in thousands of tons): wheat, 558; corn, 2,135; sugar beets, 1,114; grapes, 394; apples, 67; and plums, 38. Total production of cereals fell from 3,179,000 tons in 1997 to 2,883,000 in 1999. Plums are used in the production of slivovitz, a type of plum brandy.

## 23 ANIMAL HUSBANDRY

About 32% of the total land area consists of pastures. In 2001, there were 1,234,000 pigs, 438,000 cattle, 539,000 sheep, 93,000 goats, 10,000 horses, and 11,747,000 chickens. That year, 179,000 tons of meat were produced, including 115,000 tons of pork, 34,000 tons of poultry, 26,000 tons of beef, and 2,000 tons of mutton. Milk production in 2001 totaled 665,000 tons; eggs, 47,000 tons; and cheese, 24,000 tons. Cattle breeding accounts for about 50% of agriculture's contribution to the GDP.

## 24 FISHING

With a mainland coastline of 1,778 km (1,105 mi) and island coastlines totaling 4,012 km (2,493 mi) on the Adriatic, Croatia is suited to the development of marine fishing. The total catch in 2000 was 21,388 tons, of which 98% was from marine waters. Sardine is the principal saltwater species caught; carp is the most common freshwater species. Croatia's annual catch has declined steadily due to overfishing for a variety of species. However, fish farming has resulted in an overproduction of freshwater species and a decline in prices.

## 25 FORESTRY

About 32% of the total area was forest or woodland in 2000. Croatia supplies small but good quality oak and beech; the wood industry has traditionally been oriented to the Italian market (accounting for over 35% of exports), and suffered damages during the civil war. Total roundwood production in 2000 was 3.5 million cu m (123 million cu ft), with exports of 361,000 cu m (12.7 million cu ft). Croatian exports of hardwood lumber typically consist of 50% beech, 30% oak, and 6% ash. Panels and veneer are also exported and Croatia is starting to increase the output of value-added products while seeking foreign private joint ventures. Production of panels and veneer products in 2000 (in cubic meters) included: veneer sheets, 31,000; plywood, 9,000; and particle board, 50,000. The forestry sector along with the whole of

Croatian industry is also attempting to produce in accordance with European standards and develop standardized contracts.

## 26 MINING

Aside from petroleum, the chief minerals industry, Croatia produced small quantities of ferrous and nonferrous metals and industrial minerals, mainly for domestic needs. In 2000, the output of base metals rose by 4.4%, the cement industry, which helped drive the quarrying of industrial minerals, grew by more than 3%, and the total value of output of the mining and quarrying sector increased by 1.8%. Production of clays, lime, nitrogen, pumice, stone, and sand and gravel satisfied most of Croatia's demand for construction materials; the importance of industrial minerals was expected to grow with continued postwar reconstruction. Estimated mineral production in 2000 included cement, 2.85 million tons; salt, processed at Pag Island, 33,668 tons; bentonite, 10,013 tons; gypsum, 150,765 tons; and quartz, quartzite, and glass sand, 95,636 tons. Bauxite production dropped to zero, from 1,500 tons of 1996. Prior to the breakup of Yugoslavia, Croatia was the federation's chief producer of natural gas and petroleum, and a leading producer of iron and steel. The minerals sector was heavily hurt by the 1991–92 war, which damaged facilities, affected the market for raw materials, and disrupted normal commercial activities; the outlook remained captive to political and social stabilization in the region.

## 27 ENERGY AND POWER

In 2001, Croatia had an installed electrical capacity of 3,822,000 kW. In 2000, net electricity generation was 10.6 billion kWh, of which 44.8% came from fossil fuels and 55.2% from hydropower. In the same year, consumption of electricity totaled 12.6 billion kWh. Oil fields in Slavonia, natural gas fields at Bogsic Lug and Molve, and coal mines at Labin and Potpican provide Croatia with energy resources. Oil production in 1998 was 31,000 barrels per day.

Natural gas production totaled 1.55 billion cu m (55 billion cu ft) in 1998. In 1996, Croatia signed a production agreement with foreign partners to jointly develop gas fields in the northern Adriatic. Much of the energy network was made inoperable during the civil war, and the oil refining capacity was severely damaged. However, Croatia's natural gas and petroleum industry did not suffer sustained damage during the fighting of 1991–92; the production of natural gas and petroleum continued at lower levels of output.

## 28 INDUSTRY

Light industry, especially for the production of consumer goods, was more advanced in Croatia than in the other republics of the former Yugoslav SFR. Croatia's main manufacturing industries include chemicals and plastics, machine tools, fabricated metal products, electronics, pig iron and rolled steel products, aluminum processing, paper and wood products (including furniture), building materials (including cement), textiles, shipbuilding, petroleum and petroleum refining, and food processing and beverages.

The collapse of Yugoslavia and the hostilities following Croatia's declaration of independence in 1991 damaged industrial production. Manufacturing employed about 335,000 people in 1995. The textile and clothing industry accounted for about 11% of total industrial output in 1995; the food industry, 17%. Industrial production increased 3.7% in 1998 and accounted for 24% of GDP. Industrial production increased to 33% of GDP in 2002. There is a need for reconstruction of basic infrastructure and housing, which should provide increased activity in the construction sector. The government is pursuing privatization of state-owned enterprises; INA, the national oil and gas company, was due to be sold in 2002.

## 29 SCIENCE AND TECHNOLOGY

The Croatian Academy of Sciences and Arts (founded in 1866 and headquartered in Zagreb) has sections of mathematical sciences and physics, natural sciences, and medical sciences. The country also had, as of 1996, 13 medical, scientific, and technical research institutes. The Museum of Natural Sciences (founded in 1924) is located in Split and the Croatian Natural History Museum (founded in 1846) and the Technical Museum (founded in 1954) are in Zagreb. The universities of Zagreb (founded in 1669), Osijek (founded in 1975), Rijeka (founded in 1973) and Split (founded in 1974) offer degrees in basic and applied science. In 1987–97, science and engineering students accounted for 30% of university enrollment.

In 1987–97, Croatia had 1,916 scientists and engineers and 714 technicians per million people engaged in research and development.

## 30 DOMESTIC TRADE

Domestic trade occurs mainly between urban industry and rural agriculture. Civil strife and economic recessions in the past decade have severely weakened the domestic economy. The government has looked toward foreign investments to boost the economy. Privatization and anti-corruption programs are likely to attract such foreign investments. A boost in the tourism industry has also aided the economy. As of 2002, about 58% of the GDP was contributed by the services sector.

Normal working hours for public offices are 8:30 AM to 5:00 PM, Monday through Friday. Banks are typically open from 7:00 AM to 7:00 PM, Monday through Friday, and from 7:00 AM until noon on Saturdays. During the week, shops are open from 7:00 AM to 8:00 PM, and from 7:00 AM until 3:00 PM on Saturdays. Summer holidays may translate into closed businesses during the months of July and August.

## 31 FOREIGN TRADE

Ships are the Croatia's major export (13.6% of exports), while other commodities fall close behind, including refined petroleum products (8.1%), polymers (2.9%), men's outerwear (3.4%), and women's outerwear (2.6%). Croatia's diverse export market also includes various chemicals, foodstuff, and raw materials.

In 2000 Croatia's imports were distributed among the following categories:

Consumer goods	16.3%
Food	7.2%
Fuels	14.5%
Industrial supplies	29.6%
Machinery	16.1%
Transportation	16.2%
Other	0.1%

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Italy	990	1,311	-321
Germany	632	1,298	-666
Bosnia and Herzegovina	495	82	413
Slovenia	480	627	-147
Austria	292	529	-237
Liberia	224	n.a.	n.a.
France	126	437	-311
United States	109	248	-139
Russia	57	672	-615
Belgium	43	115	-72

## 32 BALANCE OF PAYMENTS

Before the civil war, Croatia led the Yugoslav SFR in worker remittances, as thousands of Croats held factory jobs in Germany

and elsewhere. In order to provide a framework for economic recovery, the government organized the Ministry for Reconstruction, which plans to rebuild war-damaged regions and infrastructure for tourism, which could bring in much needed foreign currency. Croatia had almost no foreign exchange reserves in 1991, but by the beginning of 1996 the National Bank of Croatia reported \$1,386 million in foreign exchange reserves.

Croatia's balance of payments situation has been helped by tourism receipts, but its strong export sectors registered declines in the early 2000s. In 2000, Croatia's main exports were ships and boats, petroleum products, and textiles and apparel. The textiles and apparel sectors were faced with competition from low-wage countries, and in wood product exports, Croatian producers compete with lower-priced Southeast Asian products. Croatian farmers state they are unable to compete with subsidized farm products in the EU. The food processing and chemical industries have been losing their markets due to their inability to produce competitively priced goods of high quality.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Croatia's exports was \$5.1 billion while imports totaled \$9.7 billion resulting in a trade deficit of \$4.6 billion.

The International Monetary Fund (IMF) reports that in 2001 Croatia had exports of goods totaling \$4.75 billion and imports totaling \$8.76 billion. The services credit totaled \$4.87 billion and debit \$1.94 billion. The following table summarizes Croatia's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-642</b>
Balance on goods	-4,012
Balance on services	2,932
Balance on income	-529
Current transfers	966
<b>Capital Account</b>	<b>133</b>
<b>Financial Account</b>	<b>2,242</b>
Direct investment abroad	-121
Direct investment in Croatia	1,447
Portfolio investment assets	-6
Portfolio investment liabilities	722
Other investment assets	312
Other investment liabilities	-112
<b>Net Errors and Omissions</b>	<b>-391</b>
<b>Reserves and Related Items</b>	<b>-1,342</b>

### 33 BANKING AND SECURITIES

The National Bank of Croatia was founded in 1992. It has the responsibility of issuing currency and regulating the commercial banking sector. The Croatian dinar was issued 23 December 1991, and was replaced in 1994 by the kuna.

Commercial banks in Croatia include: Dalmatinska Banka, Zadar (1957), Dubrovačka Banka, Dubrovnik (1990), Slavenska Banka, Samobor (1873), Istarska Banka, Pula, and Osijek (1990). As of February 1996 Croatia had 57 banks. In 1995, Raiffeisenbank Austria d.d. Zagreb began operating in Croatia as the first bank with 100% foreign capital.

Bad lending practices, whereby banks willingly lend to local companies regardless of creditworthiness, has plagued the Croatian banking sector. Many Croatian banks remained in crisis into 2000. Since independence, a total of 15 Croatian banks have gone bankrupt.

The Croatian Bank for Reconstruction and Development (HBOR) was established in 1992 as a 100% government-owned institution, with the tasks of financing reconstruction and development and promoting exports through credits and credit guarantees. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$2.8 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time

deposits, and money market mutual funds—was \$12.7 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 3.9%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 5.9%.

The Zagreb Stock Exchange (ZSE) started operations in 1991. However, out of the entire portfolio of the Croatian Privatization Fund only 2% was privatized through the exchange. The introduction of the new Privatization Act in 1996 was expected to increase the role of the stock exchange, as was the adoption of an Investment Funds Act and a Securities Act. The Securities Law regulates the public offer of securities, legal entities who are authorized to conduct business with securities, securities transactions, prohibitions regarding businesses with securities, and the protection of investors. Market capitalization of the ZSE was \$3.3 billion in 2001, and trading value was \$117 million, with a turnover ratio of just 4%.

### 34 INSURANCE

The Insurance Companies Supervision Directorate grants approvals for insurance companies' operations and supervises the operations of insurance companies doing business in Croatia. Insurance companies may be established by domestic or foreign entities and may be formed as a joint-stock, mutual, private, or public company. Pension funds (divided between employees, self-employed and independent farmers) controlled substantial financial assets in Croatia as of 1997. In 2001, there was \$111 million in life insurance premiums written.

### 35 PUBLIC FINANCE

The fiscal year follows the calendar year. The IMF and World Bank have granted Croatia \$192 million and \$100 million, respectively, to repair economic imbalances from war and to curb hyperinflation. The EBRD has approved financial support totaling \$230 million for infrastructure, telecommunications, and energy projects which otherwise would be unobtainable by the Croatian government.

The US Central Intelligence Agency (CIA) estimates that in 2001 Croatia's central government took in revenues of approximately \$8.6 billion and had expenditures of \$9 billion. Overall, the government registered a deficit of approximately \$400 million. External debt totaled \$16.5 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>8,600</b>
Tax revenue	94.6%	8,133
Non-tax revenue	4.9%	420
Capital revenue	0.5%	47
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>9,000</b>
General public services	3.8%	339
Defense	5.3%	475
Public order and safety	5.6%	505
Education	8.0%	719
Health	16.0%	1,441
Social security	42.8%	3,855
Housing and community amenities	3.5%	311
Recreation, cultural, and religious affairs	1.3%	113
Economic affairs and services	8.1%	732
Other expenditures	1.3%	113
Interest payments	4.4%	398

### 36 TAXATION

In December 2000 the government adopted a package of tax laws including the General Tax Law, the Law on Tax Advising, the

Law on Corporate Profit Tax, and the Income Tax Law. In general, the new laws reduced some rates, but widened the tax base. The corporate profits tax was reduced from 35% to 20%. Reduced corporate tax rates of 5%, 10% and 15% are available for companies locating in "special care areas" (62 municipalities and towns deemed to be undeveloped) and in the Vukovar area. The corporate tax rate is also reduced for larger new investments: 7% for investments of at least 10 million Kuna (about \$1.56 million); 3% for investments of at least 20 million Kuna (about \$3.12 million); and 0% on investments over 50 million Kuna (about \$7.8 million). Companies operating in one of Croatia's 12 free trade zones (FTZs) pay half the standard corporate tax rate (10%) or 0% if their investment is more than one million Kuna (about \$156,000). There is no separate foreign investment law in Croatia, so branches of foreign companies are taxed the same as domestic companies, though only on profits made in Croatia. There is also a municipal firm tax of up to 2,000 Kuna (\$312).

Changes to the Personal Income Tax (PIT) Law, effective from 1 January 2003, increased the number of PIT tax brackets from four to five (counting the personal allowance tax free amount), increasing slightly the bands for the lower rates, but introducing a new highest rate of 45%. The new rates were 0% up to about \$2,609 a year (using \$1=6.9 Kuna); 15% for the next increment of income up to \$5,217 a year; 25% on the next increment to \$11,740 a year; 35% on the next increment to \$39,364 a year; and 45% on income above \$36,522 a year. Croatians are taxed on their worldwide income while foreigners pay only on income realized in Croatia. Deductions from taxable income are allowed for medical and housing expenses. There is a 15% withholding tax on dividend income. Local surcharges on state income taxes range from up to 10% in small municipalities to up to 30% in Zagreb. The inheritance and gift tax is 5%, and there is a 5% real property transaction tax. Property taxes are assessed locally.

The employee's contribution to social security is 20%. By the pension reform legislation effective as of 1 January 2002, 15% goes to the national pension fund and 5% to new private pension funds. The new pension system is mandatory for workers under 40 as of 1 January 2002, and optional for workers 40 to 50 years old. Workers over 50 continue to contribute all 20% to the national pension fund. As of January 2003, the cap on social security contributions by an employee was set at \$54,620 per year. The employers' contributions to social security, amounting to 17.2%, go for health and unemployment insurance: 15% for general health insurance, 0.5% for work-related accident insurance, and 1.7% for unemployment insurance.

The main indirect taxes in Croatia are the value-added tax (VAT), with a flat rate of 22%, and excise taxes. Specified goods and services are exempt from the VAT (0% rate). Slot machines are taxed at about \$14.50 per month, while winnings from games of chance are subject to the 22% VAT. Per-unit excise taxes are assessed on petroleum products, tobacco, beer, alcoholic drinks, coffee, and non-alcoholic drinks. Luxury goods carry a 30% excise. Producers and importers of vehicles (cars, motorbikes, boats and airplanes) pay excise taxes, while buyers of used vehicles pay a sales tax. Auto insurance premiums are taxed at 15%, for liability insurance, and 10%, for comprehensive insurance. There are local consumption taxes on alcoholic drinks up to 3%.

### 37 CUSTOMS AND DUTIES

The Customs Law, Law on Customs Tariffs, and Law on Customs Services were implemented in 1991. Croatia adopted all of the international tariffs and protection agreements ratified by the former Yugoslav SFR that did not contravene Croatia's constitution. The customs system was considerably changed in 1996 with a new customs law that harmonized the system with that of the European Union. In 2000, customs laws were revamped yet again to allow the government to change tariff rates annually. Customs duties range mainly from 0% to 18%. The

average tariff for industrial goods is 5% and for agricultural goods 27%. In 1996, goods such as raw materials, semi-finished goods, spare parts, supplies used for repairing war damage, and the household possessions of returning Croatian refugees were exempted from customs duty and subject only to an administrative charge of 1%. The Customs Tariff lists all the goods specified and grouped into a system of 11 sections and 97 chapters with remarks on each chapter to simplify the customs declaration procedure.

Croatia has free trade agreements with Bosnia and Herzegovina, Hungary, Macedonia, and Slovenia, and has an Association Agreement with the European Union.

### 38 FOREIGN INVESTMENT

Attracting foreign investment is a key goal of the comprehensive strategy for long-term development, "Croatia in the 21st Century," adopted 21 June 2001 with an aim of becoming a fully integrated member of the European Union. The day before, the bilateral investment treaty (BIT) with the United States entered into force. Croatia does not have a separate foreign investment law, so foreign firms generally receive national treatment under the 1995 Company Law. The Law on Free Trade Zones (FTZs) was adopted in June 1996. Companies making infrastructure investments of at least \$125,000 are eligible for a five-year tax holiday, while others (except those in retail trade, which are excluded from FTZs) pay half Croatia's corporate income tax rate (10% instead of 20%). Exported goods are fully exempt from custom duties and taxes. The government has designated 12 FTZ locations. The Croatian constitution states that rights acquired through capital investments cannot be withdrawn by law or any legal act and it also insures free repatriation of profits and capital upon disinvestment.

From 1993 to 2000, total foreign investment in Croatia totaled \$4.68 billion, about 24% from the United States and 24% from Germany. Most foreign direct investment (FDI) has come through the privatization of government-owned assets and most has been directed to trade, services, banking, and telecommunications, rather than industry. The inflow of FDI was \$0.55 billion in 1997, \$1 billion in 1998, and peaked at \$1.6 billion in 1999, due largely to the sale of 35% of the state telecommunications company, Hrvatske Telekomunikacije (HT), to Deutsche Telekom (DT) for \$830 million. In 2000, FDI inflow fell back to \$1.1 billion, then recovered to almost \$1.5 billion in 2001 due to the sale of another 16% of HT to DT for \$422 million, giving DT 51% majority ownership. In 2002, FDI fell back to \$900 million.

In foreign portfolio investment, as of 31 December 2001, US investors held \$734 million of Croatia securities, \$255 in equity shares in Croatian companies, and \$479 million in long-term debt securities.

Outward investment by Croatian firms from 1993 through the first quarter of 2001 totaled \$413 million, 39% going to Poland and 28% to Bosnia and Herzegovina.

### 39 ECONOMIC DEVELOPMENT

In October 1993, the government adopted an ambitious three-phase program intended to stabilize the economy through fiscal stabilization, currency reform, and accelerated privatization. The plan, however, relies upon cooperation with international financial organizations.

Economic development has been closely tied with privatization. By 1995, the process of ownership transformation had been fully completed by 2,554 companies. There were 221 companies that had the two Croatian Pension Funds and Croatian Privatization Funds (CPF) as majority owners, and 1,225 companies having the same funds as minority owners. The CPF is legally obliged to offer the shares of its portfolio for sale at auction, and as a rule sells its shares through the Zagreb Stock Exchange. Continued liberalization is expected by the reformist

government of Ivica Racan, who aimed in 2003 to speed Croatia's anticipated membership in the European Union. The national insurance, oil, and gas companies were planned to be privatized during 2002–03. Croatia is a member of the IMF, IBRD, and EBRD (as one of the Yugoslav SFR's successor states). Upon the outbreak of conflict in Yugoslavia, the United States suspended all benefits to Yugoslavia under the General System of Preferences, but benefits under this program were subsequently extended on 11 September 1992 to all the former Yugoslav SFR republics except Serbia and Montenegro. Despite the economic adversity, foreign investors have been keen to identify business opportunities in Croatia's relatively stable economy.

In February 2003, Croatia negotiated a 14-month, \$146-million Stand-By Arrangement with the IMF to support the government's economic and financial program. Strong domestic demand and business and government investment contributed to a 5% real gross domestic product (GDP) growth in the first nine months of 2002, compared to 3.8% in 2001. The government deficit declined in 2002, and inflation fell. The currency remained stable as well. The public debt rose, however, to 57.5% of GDP at the end of 2002, up from 55% at the end of 2001. This general economic success was due in part to a good tourist season, and a large highway construction program, in addition to increased private consumption and rising investment.

#### 40 SOCIAL DEVELOPMENT

The effects of the 1991 war, the great refugee burden, the disruptions of the Bosnian war, the absence of significant international aid, and other factors combined to strain the country's social fabric and economy. In 1993, the average standard of living stood at less than 50% of its level before 1991. Over 400,000 Croats were displaced by the war and its aftermath.

Croatia's first pension laws date back to 1922, with most recent changes in 2002. The law provides for a dual system of a social system and mandatory private insurance. Health and maternity benefits, workers' compensation, unemployment coverage, and family allowances are also provided.

Women hold lower paying positions in the work force than men even though gender discrimination is prohibited by law. In 2000 legislation was passed to improve efforts to prosecute cases of domestic violence. Rape and spousal rape are grossly underreported, and there is only one women's shelter.

The constitution states that all persons shall enjoy all rights and freedoms, regardless of race, color, sex, language, religions, political opinion, national origin, property, birth, education or social status. However, ethnic tensions continue. Muslims and Serbs in Croatia face considerable discrimination. Serbs and Muslims are also often being denied citizenship based on Article 26 of the Law on Citizenship which allows national security to be used as a reason to reject citizenship applications. Noncitizens are denied many rights and privileges, including access to the social security system, pensions, free education, and employment in the civil service. Arbitrary detention and torture, abuse of detainees, and other human rights violations continue. The Roma population also suffers discrimination.

#### 41 HEALTH

Between 1991 and 1992, there were 25,000 war-related deaths. Croatia is in the process of privatizing primary health care in accordance with regulations issued in 1996.

There were 48,535 new births in 1999. The fertility rate was 1.5 births per woman in the same year. Life expectancy in 2000 was 73 and infant mortality rate per 1,000 live births was 8. The overall mortality rate in 1999 was 11 per 1,000 people.

Croatia had 84 hospitals in 1997, including both general and tertiary care facilities. The country is known for its spas, where patients receive preventive and rehabilitative care that makes use

of spring water and other natural resources, as well as such treatments as massage. As of 1999, there were an estimated 2.3 physicians and 5.9 hospital beds per 1,000 people. In 2000, 95% of the population had access to safe drinking water and 100% had adequate sanitation.

In 1997, immunization rates for children under the age of one were as follows: tuberculosis, 98%; diphtheria, pertussis, and tetanus, 92%; measles, 93%; and polio, 92%. In 1999, the incidence of tuberculosis was 61 per 100,000 people.

As of 1999, the number of people living with HIV/AIDS was estimated at 350 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.02 per 100 adults. In the same year, 61 new cases of tuberculosis were reported per 100,000 people.

#### 42 HOUSING

After years of war, the country is just beginning the process of rebuilding not only homes for the thousands who were displaced by the conflict, but industries, businesses, and civic buildings as well. As of the mid-1990s, nearly 800,000 displaced persons and refugees from Bosnia and occupied Croat territories were in Croatia, of which approximately 640,000 have found temporary housing with families in Croatia. By 1997, thousands of refugees (mostly from Eastern Slavonia) still remained housed in coastal hotels.

According to the 2001 census, there were about 1,660,649 dwellings for permanent residence throughout the country. Most dwellings had between two to four rooms. About 70,817 dwellings had been built since 1996. There were about 1,455,116 households representing 4,272,590 people. Most households had between two to four members.

As of 2001, the government has implemented a Welfare Supported Housing Construction Program to assist low-income families unable to purchase apartments.

#### 43 EDUCATION

Education at the elementary level is free and compulsory for children between the ages of 7 and 15 years. Secondary education lasts from two to five years and is of three kinds: grammar; technical and specialized; and mixed-curriculum. In 1997, there were 203,933 students enrolled in 1,094 primary schools, with 10,762 teachers. Student-to-teacher ratio stood at 19 to 1. Secondary schools enrolled 416,829 students and employed 31,070 teachers the same year. As of 1999, 72% of primary-school-age children were enrolled in school, while 79% of those eligible attended secondary school. In 1995, public expenditure on education was estimated at 5.1% of GDP.

For the year 2000, the rate of adult illiteracy was estimated at 1.7% (males, 0.6%; females, 2.7%). In higher education, there are four universities and three polytechnic institutes: University of Osijek (founded in 1975); University of Rijeka (founded in 1973); University of Split (founded in 1974); and University of Zagreb (founded in 1669). In 1997, Croatia's universities, technical schools, and arts academies had 6,038 teachers and enrolled a combined total of 85,752 students.

#### 44 LIBRARIES AND MUSEUMS

The National and University Library of Croatia in Zagreb (founded in 1606) had 2.5 million volumes in 2002. The Zagreb public library holds close to 300,000 volumes. In 1995, the country reported having 232 public libraries with a combined collection of 4.6 million volumes.

Major museums in Zagreb include the Historical Museum of Croatia, Strossmeyer's Gallery of Old Masters, and the Gallery of Modern Art. Other major cultural centers include Split, which houses the Museum of Croatian Medieval Archeology, and Dubrovnik, with the Natural Sciences Museum among others. In all, the country boasts over 100 museums.

## 45 MEDIA

In 2000, there were 1,721,139 main line telephones and about 1,300,000 mobile cellular phones. Government controlled Croatian Radio-Television (Hrvatska Radiotelevizija) has charge of all broadcasting. In 1999, Croatian Radio ran 16 AM and 98 FM stations with 5 shortwave options. In 1995, there were 36 television stations. In a 2001 report, it was estimated that over 80% of the population relies on the government-sponsored television news program, *Dnevnik*, for national news. Independent local stations can only cover about 65% of the country's territory. In 1997, there were 1.5 million radios and 1.2 million television sets. In 1996, there were over 94,000 personal computers in use. In 2000, there were nine Internet service providers serving about 200,000 users.

In 1995, there were nine daily newspapers with a combined circulation of over 400 million, and 563 non-dailies (including over 60 weeklies); there were about 400 periodicals. As of 2002, the major dailies included *Vecernji List* (circulation 200,000), published in Zagreb, and *Novi List* (60,000), published in Rijeka, as well as the sports daily *Sportske Novosti* (55,000), published in Zagreb. In 1994, there were some 2,600 book titles published.

In October 1996, a comprehensive Law on Public Information was passed in Parliament with general support from all parties to regulate the media. In general, government influence on media through state ownership of most print and electronic media outlets restricts constitutionally-provided freedoms of speech and press.

## 46 ORGANIZATIONS

In 1852, the Chamber of Commerce and Crafts was first organized in Zagreb. In 1990, the Croatian Chamber of the Economy (CCE) was constituted as the authentic representative of the Croatian economy. The CCE consists of 20 county chambers and promotes trade and commerce in world markets along with the Association of Independent Businesses and the Zagreb Trade Fair. Since 1994, 30 professional organizations have been founded in the CCE. A number of organizations promoting research and education in various medical and scientific fields have also formed. The Rudjer Boskovic Institute is a national organization that conducts research and educational programs for the natural sciences. The Croatian Academy of Sciences and Arts has been active since 1861.

There are many sports associations throughout the country, including the general Croatian Athletic Federation and a chapter of the Special Olympics. Youth organizations include the umbrella organization of the Croatian National Youth Council (NSMH), the Croatian Club for the United Nations (CCUN), and the Junior Chamber of Croatia (JCC), as well as scouting programs. Among many national women's organizations are the Croatian Association of University Women and Be Active, the Women's Infoteka, and Be Emancipated (BABE).

## 47 TOURISM, TRAVEL, AND RECREATION

Tourist attractions include visits to Dubrovnik and Split to enjoy the climate, scenery, and excellent swimming from April to October. Beautiful historic churches and ancient palaces can be found in the major cities.

In 1999, 28,210,778 foreign visitors arrived in Croatia. That year there were 80,009 hotel rooms with 193,716 beds and a 25% occupancy rate. Receipts totaled US\$2.49 billion.

In 2002 the US Department of State estimated the daily cost of staying in Zagreb at \$186.

## 48 FAMOUS CROATS

Dr. Franjo Tudjman was president of Croatia from May 1990 until his death in 1999. Nikica Valentić has been prime minister since April 1993. Two Nobel prize winners have come from Croatia: Lavoslav Ružička and Vladimir Prelog (d.1998).

Josip Broz-Tito (1892–1980) was the leader of Communist Yugoslavia for many years after World War II. In 1948, he led his country away from the Communist Bloc formed by the Soviet Union. Tito served in the Red Army during the Russian Civil War and led the Yugoslav resistance movement during World War II.

There are several internationally known figures in literature and the arts: Ivan Gundulić (1589–1638) wrote about the Italian influences in Croatia in *Dubravka*. Count Ivo Vojnović (1857–1929) is best known for *A Trilogy of Dubrovnik*. Miroslav Krleža (1857–1981) captured the concerns of pre-revolutionary Yugoslavia in his trilogy of the Glembay family (1928–32) and in novels like *Return of Philip Latinovicz* (1932) and *Banners* (1963).

Double-agent Duško Popov (1912–1981), who worked during World War II, was the model for Ian Fleming's James Bond. The wartime figure, Andrija Artuković (1899–1988), known as "Butcher of the Balkans" for his activities in support of Germany, is from Croatia. Religious leader Franjo Šeper (1884–1981) was born in Croatia, as was inventor Nikola Tesla (1856–1943). Musician Artur Radzinski (1894–1958) became conductor of the New York Philharmonic in 1943, and of the Chicago Symphony in 1947. Zinka Kumc Milanov (1906–1989) was a dramatic opera soprano with the New York Metropolitan Opera in the 1950s and 1960s. Mathilde Mallinger (1847–1920) was a famous Croatian soprano, who performed with Berlin Opera from 1869–1882.

## 49 DEPENDENCIES

Croatia has no territories or colonies.

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# CZECH REPUBLIC

Czech Republic  
*Ceskaá Republika*

**CAPITAL:** Prague (Praha)

**FLAG:** The national flag consists of a white stripe over a red stripe, with a blue triangle extending from hoist to midpoint.

**ANTHEM:** *Kde domov muj (Where Is My Native Land).*

**MONETARY UNIT:** The koruna (Kc) is a paper currency of 100 haléru, which replaced the Czechoslovak koruna (KCS) on 8 February 1993. There are coins of 1, 5, 10, 20, and 50 heller and of 1, 2, 5, 10, 20, and 50 koruny, and notes of 10, 20, 50, 100, 200, 500, 1,000, 2,000, and 5,000 koruny. Kc1 = \$0.03401 (or \$1 = Kc29.4) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Labor Day, 1 May; Anniversary of Liberation, 9 May; Day of the Apostles, St. Cyril and St. Methodius, 6 July; Christmas, 25 December; St. Stephen's Day, 26 December. Easter Monday is a movable holiday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The Czech Republic is a strategically located landlocked country in Eastern Europe. It sits astride some of the oldest and most significant land routes in Europe. Comparatively, the Czech Republic is slightly smaller than the state of South Carolina with a total area of 78,866 sq km (30,450 sq mi). It shares boundaries with Poland (on the NE), Slovakia (on the SE), Austria (on the S), and Germany (on the W and NW) and has a total boundary length of 1,881 km (1,169 mi). The capital city of the Czech Republic, Prague, is located in the northcentral part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of the Czech Republic consists of two main regions. Bohemia in the west is comprised of rolling plains, hills, and plateaus surrounded by low mountains. Moravia in the east is very hilly.

## <sup>3</sup>CLIMATE

The Czech Republic has a Central European moderate and transitional climate, with variations resulting from the topography of the country. The climate is temperate with cool summers, and cold, cloudy, and humid winters. The average temperature in Prague ranges from about  $-1^{\circ}\text{C}$  ( $30^{\circ}\text{F}$ ) in January to  $19^{\circ}\text{C}$  ( $66^{\circ}\text{F}$ ) in July. A generally moderate oceanic climate prevails in the Czech lands. Rainfall distribution is greatly influenced by westerly winds, and its variation is closely correlated to relief. Over three-fifths of the rain falls during the spring and summer, which is advantageous for agriculture. The precipitation range is from 50 cm (20 in) to more than 127 cm (50 in); rainfall is below 58 cm (23 in) in western Bohemia and southern Moravia.

## <sup>4</sup>FLORA AND FAUNA

Plants and animals are Central European in character. Almost 70% of the forest is mixed or deciduous. Some original steppe grassland areas are still found in Moravia, but most of these lowlands are cultivated.

Mammals commonly found in the Czech Republic include the fox, hare, hart, rabbit, and wild pig. A variety of birds inhabit the lowlands and valleys. Fish such as carp, pike, and trout appear in numerous rivers and ponds.

## <sup>5</sup>ENVIRONMENT

The Czech Republic suffers from air, water, and land pollution caused by industry, mining, and agriculture. Lung cancer is prevalent in areas with the highest air pollution levels. In the mid-1990s, the nation had the world's highest industrial carbon dioxide emissions, totaling 135.6 million metric tons per year, a per capita level of 13.04 metric tons. Like the Slovak Republic, the Czech Republic has had its air contaminated by sulfur dioxide emissions resulting largely from the use of lignite as an energy source in the former Czechoslovakia, which had the highest level of sulfur dioxide emissions in Europe, and instituted a program to reduce pollution in the late 1980s. Western nations have offered \$1 billion to spur environmental reforms, but the pressure to continue economic growth has postponed the push for environmental action.

The Czech Republic has a total of 15 cu km of freshwater resources, of which 1% is used for farming and 57% is used for industry. Both urban and rural dwellers have access to safe drinking water. Airborne emissions in the form of acid rain, combined with air pollution from Poland and the former GDR, have destroyed much of the forest in the northern part of the former Czechoslovakia. Land erosion caused by agricultural and mining practices is also a significant problem.

As of 2001, the endangered list included seven mammal species, six bird species, six types of freshwater fish, and seven plant species. Endangered species include the Atlantic sturgeon, slender-billed curlew, and Spengler's freshwater mussel.

## <sup>6</sup>POPULATION

The population of Czech Republic in 2003 was estimated by the United Nations at 10,236,000, which placed it as number 76 in population among the 193 nations of the world. In that year approximately 14% of the population was over 65 years of age,



with another 16% of the population under 15 years of age. There were 95 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.10%, with the projected population for the year 2015 at 10,076,000. The population density in 2002 was 130 per sq km (337 per sq mi). The population is most dense in north and central Bohemia and in Monrovia.

It was estimated by the Population Reference Bureau that 75% of the population lived in urban areas in 2001. The capital city, Prague, had a population of 1,225,000 in that year. Other major cities include Brno, 392,614; Ostrava, 327,371; and Pilsen, 173,008. According to the United Nations, the urban population growth rate is at a standstill.

## 7 MIGRATION

After World War II, nearly 2.5 million ethnic Germans were expelled from the Sudeten region. The emigration wave from Czechoslovakia after the communist takeover in February 1948 included some 60,000 people; another 100,000 persons left the country after the invasion of the Warsaw Pact countries in August 1968. Emigration slowed during the 1970s to about 5,000 annually, but during the 1980s, some 10,000 people (according to Western estimates) were leaving each year. Average annual legal emigration in the years 1965–69 was 9,457; in 1970–74, 5,899; in 1975–79, 3,734; and in 1980–85, 3,240.

The Czech Republic encountered its first refugee influx in 1990; since then, more than 22,000 have applied for asylum in the country. The number of people applying for asylum sharply increased in 1998. The net migration rate for 2000 was 1.0 migrants per 1,000 population. In that year there were 236,000 migrants living in the Czech Republic. The government views both the immigration and emigration levels as too high.

## 8 ETHNIC GROUPS

Between 1945 and 1948, the deportation of the Sudeten Germans altered the ethnic structure of the Czech lands. Since the late 1940s, most of the remaining Germans have either assimilated or emigrated to the West. In 1998, Czechs constituted 94.4% of the total population; Slovaks made up 3%; Poles accounted for 0.6%; Germans for 0.5%; Gypsies for 0.3%; Hungarians for 0.2%; and others for 1%.

## 9 LANGUAGES

Czech, which belongs to the Slavic language group, is the major and official language. In addition to the letters of the English alphabet, the Czech language has both vowels and consonants with acute accents (indicating length) and háček: á, é, í, ó, ú, ý, ě, dč, ě, ň, ř, š, ž, as well as ů (the circle also indicates length). In Czech, q, w, and x are found only in foreign words. There are numerous dialects. Many older Czechs speak German; many younger people speak Russian and English. Slovak is also spoken.

## 10 RELIGIONS

Though the country has a strong tradition of Christianity, the Communist rule of 1948 to 1989 greatly repressed religious practice. Even today, many citizens do not claim membership in any religious organizations. In 2001, only about 38% of the population claimed to believe in God. About 52% claimed to be atheist. Only about 5% of the population are practicing Roman Catholics while about 1% are practicing Protestants. The Islam community has about 20,000 to 30,000 members while the Jewish community has only a few thousand people.

The constitution provides for religious freedom, and the government reportedly respects this right in practice. Religious affairs are handled by the Department of Churches at the Ministry of Culture. There is no requirement to register; however, officially registered groups are subsidized by the State. The Unification Church was denied registration in 1999 when it was

determined that it had obtained proof of membership by fraud. To register a church must have a minimum of 10,000 adult members permanently residing in the country; only 500 are necessary for churches which the World Council of Churches has already recognized.

After the fall of the communist state in 1989, the Vatican began to appoint bishops in Czechoslovakia. In the next year, diplomatic relations were established. The Czechoslovakian Ecumenical Council of Churches continues to represent churches in both new republics.

## 11 TRANSPORTATION

There are some 9,444 km (5,866 mi) of railroads in the Czech Republic, connecting Prague with Plzen, Kutná Hora, and Brno. Paved highways cover 55,432 km (34,445 mi), including 499 km (310 mi) of expressways in 2002. As a landlocked nation, the Czech Republic relies on coastal outlets in Poland, Croatia, Slovenia, and Germany for international commerce by sea. There are 303 km (188 mi) of waterways. The principal river ports are Prague on the Vltava, and Děčín on the Elbe. In 2001 there were 121 airports, of which 44 had paved runways. Principal airports include Turany at Brno, Mosnov at Ostrava, and Ruzyně at Prague. Ruzyně is the nation's primary commercial airlink. In all, Czech airports in 2001 performed 26 million freight ton-km (8.9 million freight ton-mi) of service. In that same year, domestic and international flights carried 2,559,900 passengers.

With the separation of Czechoslovakia, the new Czech Republic has rapidly replaced its former Eastern European trading partners with Western ones (primarily Germany and the rest of the EU). This shift in the direction of transportation of goods into and out of the Czech Republic has overloaded the current infrastructure of roads, airports, and railroads. In 1993, the government targeted several goals to develop the transportation network, including: the development of priority connections between Prague and Vienna, Berlin, Warsaw, Nuremberg, Munich, and Linz; the construction of 264 km (164 mi) of new highways over the next 8–10 years for improved trucking links; expansion of the Prague Ruzyně airport; and connection to Western Europe's high-speed rail system, and the acquisition of better rolling stock.

Most goods are shipped by truck. Currently, underdeveloped railroads and waterways often can not accommodate intermodal transport. As of 2001, a \$3.5 billion project was underway to modernize the rail system.

## 12 HISTORY

The first recorded inhabitants of the territory of the present-day Czech Republic were the Celtic Boii tribe, who settled there about 50 BC. They were displaced in the early modern era by German tribes (Marcomanni, Quidi) and later by Slavs, who pushed in from the east during the so-called Migration of the Peoples. The new settlers kept the Roman version of the name Boii for that region, Boiohaemum, which later became Bohemia. The first unified state in the region was that of a Frankish merchant named Samo, who protected his lands from the Avar empire in Hungary and the Franks of the West, reigning until his death in 658. This mercantile city-state lasted until the 9th century, when it grew into the Moravian Empire. The fidelity of this new empire had strategic importance to both the Eastern and the Western Church, who sent missionaries to convert the Moravian people. Beginning in 863, two Orthodox monks, Cyril and Methodius, succeeded in converting large numbers of people to the Byzantine church (introducing a Slavic alphabet named "Cyrillic" after one of the monks), but Roman Catholic missionaries gained the majority of converts.

The Moravian Empire was destroyed at the end of the 9th century (903–907) by invading Magyars (Hungarians), who incorporated the eastern lands into their own, while the Kingdom



LOCATION: 49°26' to 51°3' N; 12°6' to 18°54' E. BOUNDARY LENGTHS: Poland, 658 kilometers (409 miles); Slovakia, 214 kilometers (133 miles); Austria, 362 kilometers (225 miles); Germany, 646 kilometers (401 miles).

of Bohemia inherited the lands and peoples of the west. The Premyslid Dynasty took control of the Bohemian kingdom, allying with the Germans to prevent further Magyar expansion. In the year 1085, Prince Vratislav was the first Bohemian prince to receive royal status from the Byzantine Empire, gaining his title by supporting Henry IV against Pope Gregory VII. A century later, in 1212, Premysl Otakar I was given the Golden Bull of Sicily, proclaiming Bohemia a kingdom in its own right, and the Bohemian princes the hereditary rulers of that land. During the 13th century, the powers gained by the Premyslid Dynasty through the German alliance waned as this relationship brought the substantial migration of Germans into Bohemia and Moravia. The next line to rule Bohemia, starting with John of Luxembourg (1310–1346), came to power before a time of great social and religious strife. Charles IV of Luxembourg was not only King of Bohemia (1346–1378), but Holy Roman Emperor as well, ushering in the Czech “Golden Age,” but his ties to the Roman Catholic Church would later tear the Kingdom apart. In 1348 he founded Charles University in Prague, one of the first learning

institutions to operate outside of the Church’s monasteries, which nourished the minds of Bohemian intellectuals. As the citizens of Prague began to learn of the intransigence of the Roman Catholic Church, Wenceslas IV, successor to Charles IV, experienced a series of economic and political crisis (1378–1419) that escalated with The Great Schism of the Church. Bohemia became a center of passionate opposition to the Catholic church, and to German domination, led by Jan Hus in the Hussite movement. Burned at the stake for heresy in 1415 by German Emperor Sigismund, Hus became a national martyr and hero, and the country was in open rebellion (1420–1436). During this time, Sigismund conducted six crusades in Bohemia to end the revolution, until he finally succeeded in 1434. By 1436, tired of fighting, both sides signed the Compacts of Basle. These documents allowed the Hussite denomination, and became the model of religious tolerance, which did not last for long. In 1462 Hungary extended its control over Bohemia, ruling through the Jagellon Dynasty until 1526, when Ferdinand of Hapsburg was elected to the Crown of St.

Wenceslas, making Bohemia the property of the House of Hapsburg.

The Czechs were predominantly Protestant, while their new rulers were bent on introducing the Roman Catholic faith to Bohemia, exacerbating civil tensions. Although Protestants were able to secure certain civil rights, and the freedom to worship, peace was fragile. In 1618 two Protestant churches were closed, leading Protestants to throw two royal governors out of the windows of Prague Castle, an act known as the “Defenestration of Prague.” At the same time, 27 Protestant nobles are executed by the Habsburgs. In the Thirty Years’ War, which followed, the Czechs deposed their Catholic king, replacing him with Frederick of the Palatinate, a Protestant. The Protestant forces of the Bohemian Estates were defeated by the Catholic Emperor in 1620, at the Battle of White Mountain, and the Catholics again took the throne. This represented a disaster for the Czechs, who had their lands seized and their leaders executed, while nearly 30,000 of their number fled. The war ended in 1648 with the Peace of Westphalia, which sanctioned the large-scale immigration of Germans, resulting in the gradual Germanification of Czech territory. Under Empress Maria-Theresa (1740–1780) Bohemia became part of Austria, and the most industrialized part of the Austrian Empire, but Czech culture and language were suppressed.

Political tranquility was ended by the riots, which broke out across Europe in 1848. On 11 March 1848, a demonstration in Prague demanded freedom of the press, equality of language, a parliament to represent Czech interests, and an end to serfdom. A Pan-Slavic Congress was convened in Prague in June of the same year, under Francis Palacky, a Bohemian historian. The Austrian authorities responded by imposing a military dictatorship, which struggled to restrain a steadily rising tide of nationalist aspirations. When World War I began, thousands of Czech soldiers surrendered to the Russians, rather than fight for the Austro-Hungarians. They were transformed into the Czech Legion, which fought for the Russians until the Russian Revolution of 1917. Although Austria retained nominal control of Bohemia until the war’s end, a separate Czech National Council began functioning in Paris as early as 1916.

### Formation of the Czechoslovak Republic

It was the members of that Council, especially Eduard Benes and Tomas Masaryk, who were instrumental in gaining international support for the formation of an independent Czech and Slovak state at war’s end. The Czechoslovak Republic, established 28 October 1918 under President Tomas Masaryk, was a contentious mix of at least five nationalities—Czechs, the so-called Sudeten Germans, Slovaks, Moravians, and Ruthenians—who created one of the ten most developed countries in the world, during the interwar period. All these nationalities were granted significant rights of self-determination, but many groups wished for full independence, and some of the Sudeten Germans hoped for reunification with Germany. In 1938 Adolph Hitler demanded that the Sudeten German area, which was the most heavily industrialized part of the country, be ceded to Germany. A conference consisting of Germany, Italy, France, and Great Britain, was convened, without Czechoslovakian representation. Ignoring the mutual assistance pacts, which Czechoslovakia had signed with both France and the USSR, this conference agreed on 30 September 1938 that Germany could occupy the Sudetenland. On 15 March 1939, Hitler took the remainder of the Czech lands, beginning an occupation that lasted until 9 May 1945.

Many prominent Czechs managed to escape the Germans, including Eduard Benes, the president, who established Provisional Government in London, in 1940, and Klement Gottwald, the communist leader, who took refuge in Moscow. In 1945, negotiations between Benes, Gottwald, and Josef Stalin established the basis for a postwar government, which was

formed in the Slovak city of Kosice in April 1945 and moved to Prague the following month.

The government was drawn entirely from the National Front, an alliance of parties oriented toward Soviet Russia, with whom Czechoslovakia now had a common border, after the USSR incorporated Ruthenia. Although deferring to the communists, the National Front government managed to run Czechoslovakia as a democracy until 1948. The communists had been the largest vote getter in the 1946 elections, but it seemed likely that they might lose in 1948. Rather than risk the election, they organized a putsch, with Soviet backing, forcing President Benes to accept a government headed by Gottwald. Benes resigned in June 1948, leaving the presidency open for Gottwald, while A. Zapotocky became prime minister. In a repeat of Czech history, Jan Masaryk, Foreign Minister at the time, and son of T. Masaryk, was thrown from a window during the coup, a “defenestration” which was reported as a suicide.

Once Czechoslovakia became a People’s Republic, and a faithful ally of the Soviet Union, a wave of purges and arrests rolled over the country (1949–1954). In 1952 a number of high officials, including Foreign Minister V. Clementis and R. Slansky, head of the Czech Communist Party, were hanged for “Tito-ism” (after the Yugoslavian president who had been dismissed from the Cominform) and “national deviation.”

After an unsuccessful Army coup on his behalf, Novotny resigned, in March 1968, and Czechoslovakia embarked on a radical liberalization, which Dubcek termed “socialism with a human face.” The leaders of the other eastern bloc nations and the Soviet leaders viewed these developments with alarm. Delegations went back and forth from Moscow during the “Prague Spring” of 1968, warning of “counterrevolution.” By July the neighbors’ alarm had grown; at a July meeting in Warsaw they issued a warning to Czechoslovakia against leaving the socialist camp. Although Dubcek himself traveled to Moscow twice, in July and early August, to reassure Soviet party leader Brezhnev of the country’s fidelity, the Soviets remained unconvinced.

Gottwald died a few days after Stalin, in March 1953, setting off a slow but eventually significant erosion of communist control. Zapotocky succeeded to the Presidency, while A. Novotny became head of the party; neither enjoying the authority which Gottwald had held. They clung to the Stalinist methods that, after Nikita Khrushchev’s secret denunciation of Stalin in 1956, had already lost salience in the USSR. Novotny took the presidency upon Zapotocky’s death in 1957, holding Czechoslovakia in a tight grip until well into the 1960s, but the seeds of the Communist party’s destruction were already planted. The Khrushchev-led liberalization in the USSR encouraged liberals within the Czechoslovak party to emulate Moscow. Past abuses of the party, including the hanging of Slansky and Clementis, were repudiated, and Novotny was gradually forced to replace many of his most conservative allies, including the head of the Slovak Communist Party. The new head of that party, Alexander Dubcek, attacked Novotny at a meeting in late 1967, accusing him of undermining economic reform and damaging Slovak interests. Two months later, in January 1968, the presidency was separated from the party chairmanship, and Dubcek was named head of the Czechoslovak Communist Party, the first Slovak ever to hold the post.

Finally, on the night of 20–21 August 1968, military units from all the Warsaw Pact nations save Romania invaded Czechoslovakia, to “save it from counterrevolution.” Dubcek and other officials were arrested, and the country was placed under Soviet control. Repeated efforts to find local officials willing to act as Soviet puppets failed, so on 31 December 1968 the country was made a federal state, comprised of the Czech Socialist Republic and the Slovak Socialist Republic. In April Gustav Husak, once a reformer, but now viewing harmony with

the USSR as the highest priority, was named head of the Czech Communist Party. A purge of liberals followed, and in May 1970 a new Soviet-Czechoslovak friendship treaty was signed; in June Dubcek was expelled from the party.

Between 1970 and 1975 nearly one-third of the party was dismissed, as Husak consolidated power, reestablishing the priority of the federal government over its constituent parts and, in May 1975, reuniting the titles of party head and republic president. Civil rights groups formed within the country; including a group of several hundred in 1977 that published a manifesto called "Charter 77," protesting the suppression of human rights in Czechoslovakia. These groups did not seriously impinge upon Husak's power, but his successors had difficulty suppressing the liberalization movement.

Once again, it was revolution in the USSR which set off political change in Czechoslovakia. Husak ignored Soviet leader Mikhail Gorbachev's calls for *perestroika* and *glasnost* until 1987, when Husak reluctantly endorsed the general concept of Party reform, but delayed implementation until 1991. Aging and in ill health, Husak announced his retirement in December 1987, declaring that Milos Jakes would take his post. Jakes had been a lifelong compromiser and accommodator who was unable to control dissenting factions within his party, which were now using the radical changes in the Soviet Union as weapons against one another.

Even greater pressure came in early autumn 1989, when the West German Embassy in Prague began to accept East German refugees who were trying to go west. Increasingly the East German government was being forced to accede to popular demand for change, which in turn emboldened Czech citizens to make similar demands. On 17 November 1989, a group of about 3,000 youths gathered in Prague's Wenceslas Square, demanding free elections. On Jakes's orders, they were attacked and beaten by security forces; igniting a swell of public indignation, expressed in ten days of nonstop meetings and demonstrations. This "velvet revolution" ended on 24 November, when Jakes and all his government resigned. Novotny resigned his presidency soon after. Although Alexander Dubcek was put forward as a possible replacement, he was rejected because he was Slovak. The choice fell instead on Vaclav Havel, a playwright and dissident, and founder of the Charter 77 group, who was named president on 29 December 1989.

Dismantling of the apparatus of a Soviet-style state began immediately, but economic change came more slowly, in part because elections were not scheduled until June 1990. In the interim, the old struggle between Czechs and Slovaks resulted in the country being renamed the Czech and Slovak Federal Republic. In the June elections the vote went overwhelmingly to Civic Forum and its Slovak partner, and economic transformation was begun, although there were continued tensions between those who wished a rapid move to a market economy and those who wanted to find some "third way" between socialism and capitalism. Equally contentious was the sentiment for separation by Slovakia, the pressure for which continued to build through 1991 and 1992. In the June 1992 elections the split between the two parts of the country became obvious, as Czechs voted overwhelmingly for the reform and anticommunist candidates of Vaclav Klaus' Civic Democratic Party (ODS), while Slovaks voted for V. Meciar and his Movement for Democratic Slovakia, a leftist and nationalist party. Legislative attempts to strengthen the federative structure, at the expense of the legislatures of the two constituent republics, failed, and the republics increasingly began to behave as though they were already separate so that, for example, by the end of 1992, 25.2% of Czech industry was been privatized, as opposed to only 5.3% of Slovak industry. The prime ministers of the two republics eventually agreed to separate, in the so-called "velvet divorce," which took effect 1 January 1993.

Havel (who did not subscribe to any party in the interest of political tranquility) was reconfirmed as president by a vote of the Czech parliament on 26 January 1993. Klaus was successful in fostering growth in the newly formed Czech Republic, emerging from close 1996 elections with another term as prime minister, but after the first glow of liberation, major cracks in the system became visible. Milos Zeman of the Social Democratic Party (CSSD) challenged Klaus' policies, during and after the 1996 elections, especially those relating to economic growth (which was slowing). The year 1996 also saw the first elections for the 81-member Senate, the upper body of parliament, which reflected a major split in the attitude of Czech voters. Governmental democracy and a newly liberated economy had not brought about the immediate transformation that Czech citizens wanted to see, and they ended up blaming the ODS party for their woes. This, and charges of corruption in the ODS party, brought about the triumph of the opposition. In the 1998 elections, the majority of votes went to the Social Democratic Party, in a platform that stressed economic regulation and the socialist approach to government. Milos Zeman was appointed as the prime minister by President Vaclav Havel on 17 July 1998. Havel had been reelected president the previous January for another five-year term.

In March 1999, the Czech Republic became a member of NATO. In January 2001, the largest street demonstrations since the overthrow of Communism were held to protest the appointment of Jiri Hodac as the head of public service television. He was seen as a political appointee and was accused of compromising editorial independence. Hodac resigned following the protests. In April, Vladimir Spidla became leader of the Social Democrats; he was more left-wing than Zeman, and was dismissive of ODS leader Vaclav Klaus. When in the June 2002 elections the Social Democrats gained the largest number of seats in the Chamber of Deputies, Spidla became prime minister. Spidla formed a government with the Coalition, composed of the Christian-Democratic Union/Czechoslovak People's Party, and the Freedom Union (Koalice), holding 101 seats in the 200-seat Chamber (70 seats for the CSSD, and 31 for the Coalition). The ODS came in second with 58 seats, and the Communists, in their best showing since the Velvet Revolution, came in third with 41 seats.

In August 2002, Central Europe was plagued by torrential rain, and Prague suffered its worst flooding in 200 years. The city's historic district was spared, but towns and villages across the country were devastated.

The Czech Republic was one of 10 new countries to be formally invited to join the EU in December 2002, and accession is to be completed by 2004. Issues to be resolved by the countries include adoption of the euro, migration, and agriculture, among others.

Havel stepped down as president in February 2003, after his second five-year term expired. Havel's rival and former prime minister Vaclav Klaus was elected president by a slim majority of 142 votes in the 281-member parliament after two inconclusive elections and three rounds of balloting on 28 February. Although when he left the presidency opinions about his legacy were mixed in the Czech Republic, on the international scene Havel remains eternally popular for being a voice for democracy.

### 13 GOVERNMENT

The Czech Republic has a democratic government, based on a bicameral parliamentary democracy and the free association of political parties. Human and civil rights are guaranteed by the Bill of Fundamental Rights and Freedoms, a part of the constitution. The constitution of the Czech Republic was adopted by the Czech legislature in December 1992. It mandates a parliament; a Senate with 81 members who are elected for six-year terms, and a Chamber of Deputies or lower house of 200

members who are elected for four-year terms. Every two years, one third of the Senate's seats come up for reelection. The first Senatorial elections were held in November 1996. The Chamber of Deputies was first seated by popular vote in 1992. The last elections took place in June 2002. A resolution by parliament is passed by a clear majority, while a constitutional bill or an international treaty must be passed by at least a 60% majority. All citizens over the age of 18 can vote.

The head of the executive branch is the president, who is elected by parliament for a five-year term, and may serve two terms successively. The president is the supreme commander of the armed forces and has the power to veto bills passed by parliament under certain conditions. The prime minister, or premier, comes from the majority party, or a coalition, and is appointed by the president. The president appoints the ministers of the government on the recommendation of the prime minister.

## 14 POLITICAL PARTIES

Before 1996, the strongest political party in the republic was the Civic Democratic Party (ODS), headed by former Prime Minister Vaclav Klaus, a right-wing conservative party supporting democracy and a liberal economy. Supporters of the ODS are, in general, highly educated business people who come from Prague or other major cities. The ODS right-wing coalition with the Civic Democratic Alliance (ODA), Christian Democratic Union, and Christian Democratic Party, lost its majority in Parliament by two seats in the 1996 elections. Klaus and his coalition governed in the minority with the blessing of the opposition Social Democrats (CSSD), a socialist left-wing party that focuses on economic reform/growth in a planned economy. Supporters of the CSSD are mainly blue-collar laborers from industrial areas.

In December 1997, the ODS coalition (ODS, Christian Democratic Union/Czechoslovak People's Party or KDU-CSL, and ODA) was forced to resign due to the collapse of the union, government scandals and a worsening economy. A temporary government was formed in January 1998, led by Mr. Tošovský, which was given the task to prepare the country for new elections. These were held in June 1998, where the Czech Social Democratic Party gained the majority of votes (32.3%). After negotiating with the ODS, which gained 27.74% of the votes, the CSSD formed a minority government, creating the first left-oriented party since communist rule.

In the 1998 elections, the CSSD gained 74 seats in the Chamber of Deputies, and 25 seats in the Senate, while the ODS gained 63 seats in the lower house and 29 in the Senate. The Christian Democratic Union-Czechoslovak People's Party (KDU-CSL, Catholic-conservative) took 20 seats in the Chamber and 13 in the Senate, and the Freedom Union (US, break-off party from the ODS) won 19 seats in the lower house and 3 in the Senate. Voters who became disillusioned with the bad policies of the ODS coalition took a significant number of seats away from the party, and gave them to the Freedom Union. The Communist Party won 24 seats in the Chamber of Deputies and 2 seats in the Senate.

President Havel, who was reelected on 26 January 1993, did not subscribe to any political party in the interest of political tranquility. He appointed Milos Zeman of the majority Social Democratic Party as prime minister on 17 July 1998.

In the 2002 elections, the CSSD gained 70 seats in the Chamber of Deputies, and 11 seats in the Senate. The ODS took 58 seats in the Chamber and 26 in the Senate, and the Coalition, a grouping of the KDU-CSL and the United States, won 31 seats in the Chamber and 31 seats in the Senate. The Communist Party, in its strongest showing since the end of Communist rule, took 41 seats in the lower house and 3 seats in the Senate. The CSSD formed a majority government (101 seats) in the Chamber of Deputies with the Coalition. Vladimír Špidla of the CSSD became prime minister. As of March 2003, there were 11 CSSD and 6 Coalition cabinet ministers, and it was uncertain if the

government would be able to maintain itself for its full four-year electoral term.

Vaclav Klaus of the ODS was inaugurated president on 7 March 2003, after parliament voted him into office in February after many rounds of voting.

## 15 LOCAL GOVERNMENT

The Czech Republic is divided into 6,000 municipalities for local administration, 13 self-governing regions, popularly elected for a four-year period of office, and the capital city of Prague, with a mayor and city council elected for four-year terms. Under Communist rule, Czechoslovakia's government was so centralized that little to no local government existed. Such institutions have become more common since the formation of the 1992 constitution and democratic rule.

## 16 JUDICIAL SYSTEM

Under the 1992 constitution, the judiciary has been completely reorganized to provide for a system of courts which includes a Supreme Court; a supreme administrative court; high, regional, and district courts; and a constitutional court. The Supreme Court is the highest appellate court. The 15-member constitutional court created in 1993 rules on the constitutionality of legislation. Constitutional court judges are appointed by the president, subject to Senate approval, for ten-year terms. Military courts were abolished in 1993 and their functions transferred to the civil court system. The new judiciary is independent from the executive and legislative branches and appears to be impartial in its application of the law. Criminal defendants are entitled to fair and open public trials. They have the right to have counsel and enjoy a presumption of innocence.

## 17 ARMED FORCES

The Czech Republic had 49,450 active personnel in 2002. The army numbered 36,370 with 622 main battle tanks. The air force of 11,300 was divided into two organizations, Tactical Air Force and Air Defense. Paramilitary consisted of 4,000 border guards and 1,600 internal security forces. The Czech Republic provided support to UN and Peacekeeping missions in six regions around the world. Military spending in 2001 amounted to \$1.2 billion or 2.1% of GDP.

The Košice Agreement of 1945 provided for military organization, equipment, and training to be modeled after those of the former USSR. Czechoslovakia was a signatory to the Warsaw Pact of 14 May 1955, which provided for military cooperation with the USSR and other Soviet-bloc countries and for a joint command with headquarters in Moscow. Soviet forces of 80,000 remained stationed in Czechoslovakia until 1991.

## 18 INTERNATIONAL COOPERATION

A charter member of the UN since 24 October 1945, Czechoslovakia participated in ECE and all the nonregional specialized agencies except IBRD, IDA, IFAD, IFC, and IMF. It was also a signatory of GATT and of the Law of the Sea, and a member of the CMEA, which coordinated economic planning within the Communist bloc. The Czech Republic became a member of the UN on 8 January 1993, and was admitted to NATO on 12 March 1999. It is also a member of the OECD, CEI, ECE, CERN, OSCE, EBRD, IBRD, IDA, IFC, IMF, WTO, and other groups.

The country was formally invited to join the EU during its 12-13 December 2002 summit in Copenhagen, and is expected to accede to that body in 2004.

## 19 ECONOMY

Before World War II, Bohemia and Moravia were among the most agriculturally and industrially developed areas in Europe. In 1993, the Czech Republic emerged from 40 years of centralized

economic planning in the communist era (including the more balanced economic development of the 1960s) with a more prosperous and less debt-ridden economy than most other post-communist countries. It enjoys an extensive industrial sector strong in both heavy and precision engineering, self-sufficiency in a variety of agricultural crops as well as an exportable surplus of meat, extensive timber resources, and adequate coal and lignite to supply two-thirds of its total energy needs.

After recovering from a recession following the 1993 separation from Slovakia, the republic enjoyed GDP growth of 4.8% in 1995. GDP growth of up to 5.5% was forecast for 1996 and 1997. Unemployment also stabilized at less than 3% through 1996. The annual rate of inflation dropped from 20% in 1993 to 9% in 1996. The thriving economy of the mid-1990s depended upon loans easily secured from state-owned banks to newly privatized companies that did not have effective managers. This method of fueling the economy collapsed in a 1997 currency crisis which caused the economy to go into a three-year recession. Following this collapse, the government rescued and privatized the four largest banks in the Czech Republic, which stabilized the banking sector, now largely foreign-owned. The banks had begun to lend again by 2001.

As of 2001, the country was receiving the highest level of foreign direct investment per capita in Central Europe, and 40% of industrial production was coming from foreign-owned companies. This high level of investment drove the value of the koruna up in 2001, which, coupled with a downturn in the global economy, put a damper on industry. The steel and engineering industries were struggling in the early 2000s, but growth in information technology and electronics diversified the economy. The telecommunications, energy, gas, and petrochemical sectors were due to be privatized by 2002.

Severe flooding in Central Europe in August 2002 negatively impacted the Czech economy. The tourism sector was especially affected.

The country was formally invited to join the EU in December 2002, and it will need to keep its budget deficit below the 3% of GDP mandated by the EU for entering into European economic and monetary union (it was 5.3% in 2002). The deficit is balanced against the influx of revenue from privatization, however, which reached 11.3% of GDP in 2002. Accession to the EU is planned for 2004.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Czech Republic's gross domestic product (GDP) was estimated at \$155.9 billion. The per capita GDP was estimated at \$15,300. The annual growth rate of GDP was estimated at 2.6%. The average inflation rate in 2002 was 2.2%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 4% of GDP, industry 41%, and services 56%. Foreign aid receipts amounted to about \$31 per capita and accounted for approximately 1% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$2,999. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 4%. Approximately 24% of household consumption was spent on food, 14% on fuel, 5% on health care, and 12% on education. The richest 10% of the population accounted for approximately 22.4% of household consumption and the poorest 10% approximately 4.3%.

## 21 LABOR

As of 1999, the labor force was estimated at 5.2 million. Among wage earners in 2001, 5% were engaged in agriculture; 35% in industry; and 60% in services. The estimated unemployment rate in 2002 was 8.5%.

The right to form and join unions is protected by law, although as of 2002 union membership was on the decline. The major labor confederation is the Czech-Moravian Chamber of Trade Unions. Workers are freely allowed to organize and engage in collective bargaining. Striking is also allowed, but only after mediation efforts fail. Collective bargaining is usually conducted on a company-by-company basis between unions and employers.

In 2002, the law lowered the standard workweek from 42 to 40 hours. It also provides for a mandatory 30-minute rest period during the eight-hour day. The minimum working age is 15 years with some exceptions allowing legal employment to 14-year-old workers. There are strict standards for all workers under the age of 18, and these standards are routinely enforced. Occupational health and safety standards are prescribed and effectively enforced except in some industries still awaiting privatization. As of 2002, the minimum wage was \$154 per month. The monthly average was \$375.

## 22 AGRICULTURE

Agriculture is a small but important sector of the economy which has steadily declined since the "velvet revolution" of 1989. In 1998, cultivated areas accounted for 40% of the total land area. Agriculture contributed 3.9% to GDP in 2001.

The principal crops are grains (wheat, rye, barley, oats, and corn), which support the Czech Republic's dozens of small breweries. Production in 1999 included wheat, 4,028,000 tons; barley, 2,227,000 tons; rye, 206,000 tons; oats, 179,000 tons; and corn, 260,000 tons. At 166 liters (44 gallons) per person, the Czech Republic is the world's highest per capita beer-consuming nation. There is a long tradition of brewing in the Czech Republic; some of the world's oldest brands were invented there. After Germany, the Czech Republic is Europe's largest producer of hops; production in 1999 was 6,000 tons. Other important crops include oilseeds, sugar beets, potatoes, and apples.

Agriculture lags behind other sectors in the restoration of private properties seized after 1948. As of 1993, agricultural subsidies were restricted to the formation of new farms, and the production of wheat, dairy products, and meat. Over the long term, the government estimates that over 250,000 agricultural workers will need to find employment in other sectors and that arable land in use will decrease by 9%.

## 23 ANIMAL HUSBANDRY

Hogs, cattle, and poultry are the main income-producers in the livestock sector. In 2001 there were an estimated 1,582,000 head of cattle and 3,593,000 hogs. The number of chickens that year reached an estimated 14.7 million; sheep, 90,000; goats, 28,500; and horses, 26,000.

Meat, poultry, and dairy production have been oriented toward quantity rather than quality. In 2001, meat production totaled 799,900 tons, with pork accounting for 52%.

## 24 FISHING

Fishing is a relatively unimportant source of domestic food supply. Production is derived mostly from pond cultivation and, to a lesser extent, from rivers. The total catch in 2000 was 4,654 tons, all from inland waters.

## 25 FORESTRY

The Forest Code (1852) of the Austro-Hungarian Empire was incorporated into the laws of the former Czechoslovakia and governed forest conservation until World War II (1939–45). Most

forests were privately owned, and during the world wars, they were excessively exploited. The Czech Republic had an estimated 2,632,000 ha (6,504,000 acres) of forestland in 2000, accounting for 34% of the total land area. Total roundwood production in 2000 was 14.4 million cu m (508 million cu ft), with exports of 2 million cu m (71 million cu ft). Since the Czech government began property restitution, the need for wood products has far outstripped domestic supply, especially for furniture and construction materials.

## 26 MINING

The mining and processing sector's share of GDP in 2000 was 1.5%, down from 3.7% in 1993. Mining and processing of industrial minerals and the production of construction materials continued to be of regional and domestic importance. Economic resources of most metals have been depleted; at year end 2000 gold-bearing and tin-tungsten ores were among the exceptions. All the raw materials consumed by the country's steel industry were imported, including iron ore and concentrate, manganese ore, copper, and unwrought lead and zinc. Lead and zinc have not been mined for at least six years, and the number of registered deposits declined from 27 in 1995 to 11 in 2000—none was under exploitation during the period. The country's eight iron ore deposits were no longer worked. In 2000, kaolin production was 5.57 million tons, up from 3.05 million tons in 1998; common clays, 1.1 million tons, up from 759,000 in 1997; common sand and gravel, 12.6 million cu m, up from 9.3 million in 1998; foundry sand, 829,000 tons, compared to 717,000 in 1999 and 1.08 million tons in 1996; glass sand, 985,000 tons, compared to 827,000 in 1998 and 1.1 million tons in 1996; dimension stone, 320 million cu m, up from 190 million in 1996; limestone and calcareous stones, 11.8 million tons; building stone, 10.1 million tons; hydrated lime and quicklime, 1.2 million tons; feldspar, 337,000 tons, up from 244,000 in 1999; diatomite, 34,000 tons, down from 42,000 in 1997; and graphite, 23,000 tons, down from 30,000 in 1996. Output of crude gypsum and anhydrite went from 443,000 in 1996 to 82,000 in 2000. The Czech Republic also produced arsenic, hydraulic cement, bentonite, dolomite, crude gemstones and pyrope-bearing rock, illite, iron ore, nitrogen, quartz, salt, basalt (for casting), silver, sodium compounds, sulfuric acid, talc, uranium, wollastonite, and zeolites.

## 27 ENERGY AND POWER

In 2000, net electricity generation was 69.4 billion kWh, of which 77.8% came from fossil fuels, 2.5 % from hydropower, 18.6% from nuclear energy, and the remainder from other sources. In the same year, consumption of electricity totaled 54.7 billion kWh. Total installed capacity at the beginning of 2001 was 69.6 million kW.

The Czech Republic has an operational nuclear power plant with four 440 MW reactors at Dukovany, and a second, with twin 1,000 MW reactors, at Temelin, near the Austrian border. Its original completion date was 1999, but the controversial project was delayed repeatedly. The first reactor became operational in December 2000 but has been shut down repeatedly due to technical problems. When both units are fully operational (a point that was expected to be reached at the end of April 2003), they will provide 20% of the country's power needs. Uranium for domestic nuclear power comes from Pribram, North and South Bohemia, and South Moravia. Nuclear power is an important part of the Czech Republic's energy strategy because the country is trying to reduce pollution from dirty brown coal power plants, especially in southern Bohemia.

The Czech Republic's crude oil reserves are limited, totaling 15 million barrels as of January 2003. The country imports oil from both Russia and Germany through the Mero pipeline and from

Russia via the Druzhba pipeline. Oil consumption in 2001 was 172,000 barrels per day.

Since its separation from Slovakia at the beginning of 1993, the Czech Republic has made progress in diversifying energy supplies, privatizing state-owned energy companies, and reducing pollution while maintaining economic growth. In the late 1990s, privatization was carried out with an eye to European Union (EU) membership by 2003. Regional electricity companies are being privatized, while the high voltage network of 100 kilowatts and higher will remain a state entity.

The share of the nation's energy needs met by domestic coal declined from 55% in the early 1990s to 44% by the end of the decade. In the Czech Republic, lignite is mined at Brno, Kladno, Most, Plzen, Sokolov, and Trutnov; bituminous coal comes from underground mines at the East Bohemia, West Bohemia, Kladno, and Ostrava-Karviná coal fields. Coal mining declined in the 1990s, and was forecast to be cut in half by 2020.

## 28 INDUSTRY

Before World War II, Czechoslovakia favored traditional export-oriented light industries, including food processing. Concentration on the production of capital goods since the war has been at the expense of consumer goods and foodstuffs, although there have been increases in the metalworking industry and in the production of glass, wood products, paper, textiles, clothing, shoes, and leather goods. Some of these and other consumer goods—such as the world-famous pilsner beer, ham, and sugar—had figured prominently in the pre-World War II export trade, but machinery was predominant under the communist regime.

The extent of Czechoslovakian industry still ranks both the Czech and Slovak republics among the world's most industrialized countries. A final wave of privatization begun in 1995 has resulted in an 80% private stake in industry, although the government maintains some control over steel, telecommunications, transport, and energy industries. However, in 2001, the energy utility CEZ was due to be privatized. Industry accounted for 40.7% of GDP and 38% of employment through 1995. However, while industrial wages continued to grow through 1996, output fell 3.5%, forcing the government to implement new austerity measures to spur renewed growth. Nevertheless, industry, which accounted for over 40% of the economy, registered a 4.7% decline in 1998. The recession, which continued into 1999, brought disillusionment to many Czechs who had emerged from the 1989 "Velvet Revolution" as the most prosperous citizens of the former East Bloc. The European recession, which began on the heels of the economic downturn in the US beginning in 2001, further exacerbated the struggling Czech economy. Industry accounted for 41% of GDP in 2001, and employed 35% of the work force. Although the relative contribution of industry to the economy had begun to decline in 2002, the industrial base remained diversified.

Major industries in the Czech Republic include fuels, ferrous metallurgy, machinery and equipment, coal, motor vehicle, glass, and armaments. The country is particularly strong in engineering. The Czech Republic in 2001 was receiving the highest foreign direct investment in the region, which was devoted to restructuring industrial companies. Forty percent of industrial production in 2001 came from companies with foreign capital, up from 15% in 1997. The Czech Republic produced 465,268 automobiles in 2001, up 2% from 2000. Skoda Auto, now owned by Volkswagen, is a successful Czech enterprise.

## 29 SCIENCE AND TECHNOLOGY

The Czech Academy of Science has divisions of Life and Chemical Sciences, Mathematics, and Physical and Earth Sciences, and 43 attached medical, scientific, and technical research institutes. In addition, there are 28 specialized

agricultural, medical, scientific, and technical learned societies. There are technology museums in Brno, Mladá Boleslav, and Prague, and the latter also has a natural history museum. The Czech Republic has 13 universities offering degrees in medicine, natural sciences, mathematics, engineering, and agriculture. In 1987–97, science and engineering students accounted for 28% of university enrollment.

In 1987–97, total expenditures for research and development amounted to 1.2% of GNP; 1,222 scientists and engineers and 693 technicians per million people were engaged in research and development.

### 30 DOMESTIC TRADE

In the communist period, marketing and distribution, including price-fixing, were controlled by the federal government; administration on the lower levels was handled by the national committees. Cooperative farms sold the bulk of their produce to the state at fixed prices, but marginal quantities of surplus items were sold directly to consumers through so-called free farmers' markets. Starting in 1958, the government operated a program of installment buying for certain durable consumer goods, with state savings banks granting special credits.

The "Velvet Revolution" of 1989 brought rapid privatization program on an innovative voucher system. Each citizen was given an opportunity to purchase a book of vouchers to be used in exchange for shares in state-owned businesses. As a result, more than 20,000 shops, restaurants, and workshops in both the Czech and Slovak republics were transferred to private owners by public auction in a wave of "small" privatization, and through distribution of ownership shares. Under communism, nearly 97% of businesses were state-owned. Today, about 80% of the economy is wholly or partially in private hands.

Today, the commercial center of the country is Prague. Though there are numerous small shops throughout the city, American and European style supermarkets and department stores are developing and providing stiff competition. Shopping malls have also begun to develop. Though most transactions are still in cash, credit cards are gaining a wider acceptance within major cities. Direct marketing, particularly through catalog sales, has become more popular, particularly in areas outside of the major cities.

Businesses generally adhere to a standard 40-hour per week, though many may close early on Fridays. Most businesses do not keep weekend hours.

### 31 FOREIGN TRADE

Czechoslovak foreign trade has traditionally involved the import of raw materials, oil and gas, and semi-manufactured products and the export of semi-finished products and consumer and capital goods. In 1989, trade with former Eastern bloc nations accounted for 56% of Czechoslovakia's total foreign trade; by the end of 1992 their share had more than halved to 27%.

Today, the Czech Republic engages in the export of numerous manufactured goods that are used in the production of automobiles, furniture, and electrical appliances. The manufacturing of metals, including iron and steel plates and sheets, and base metal bring in 5.7% of export dues. The road vehicle industry results in 15.6% of exports. Other export commodities include textiles (4.3%), glassware (which the country is famous for producing—1.6%), furniture (2.7%), and electrical machinery (2.9%). A majority of these products are exported to Germany.

In 2000 the Czech Republic's imports were distributed among the following categories:

Consumer goods	14.1%
Food	4.0%
Fuels	9.5%
Industrial supplies	32.4%
Machinery	28.7%
Transportation	11.2%
Other	0.1%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	11,752	10,380	1,372
Slovakia	2,230	1,933	297
Austria	1,735	1,589	146
Poland	1,578	1,149	429
United Kingdom	1,246	1,330	-84
France	1,168	1,597	-398
Italy	1,101	1,664	-429
United States	818	1,421	-603
Netherlands	668	752	-84
Russia	387	2,079	-1,692

### 32 BALANCE OF PAYMENTS

The current account balance in 2001 improved from 2000, when it stood at approximately \$3.5 billion, or 4.8% of GDP, due to a narrowing trade gap. Strong inflows of foreign direct investment have led to surpluses in the financial account, which easily cover the current account deficit.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of the Czech Republic's exports was \$38 billion while imports totaled \$41.7 billion resulting in a trade deficit of \$3.7 billion.

The International Monetary Fund (IMF) reports that in 2001 the Czech Republic had exports of goods totaling \$33.4 billion and imports totaling \$36.5 billion. The services credit totaled \$7.09 billion and debit \$5.6 billion. The following table summarizes Czech Republic's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-2,624</b>
Balance on goods	-3,078
Balance on services	1,524
Balance on income	-1,540
Current transfers	470
<b>Capital Account</b>	<b>-9</b>
<b>Financial Account</b>	<b>4,058</b>
Direct investment abroad	-95
Direct investment in the Czech Republic	4,924
Portfolio investment assets	125
Portfolio investment liabilities	798
Other investment assets	-1,271
Other investment liabilities	-337
<b>Net Errors and Omissions</b>	<b>362</b>
<b>Reserves and Related Items</b>	<b>-1,787</b>

### 33 BANKING AND SECURITIES

The Czech National Bank (CNB) is the country's central bank, charged with issuing currency and regulating the state's commercial banking sector. Since mid-1996 domestic credit and M2 growth have fallen sharply. Growth in M2 stood at 7.8% at the end of December 1996, well below the central bank's 13-17% growth target for 1996 and in the middle of its 8-12% target range for 1997.

In the mid-1990s, there were 36 commercial and savings banks in the Czech Republic. The state had one state financial bank, 21



Czech joint-stock companies, 6 partly owned foreign banks, and 7 foreign banks. The new Czech Export Bank commenced operations in late 1996. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$15.3 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$42.3 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.69%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 4.75%.

The origins of the first exchange in Prague go back to the 1850s when foreign exchange and securities were the principal trading products. An exchange trading securities and commodities was established in 1871. The volumes traded at the exchange fluctuated considerably and in 1938 official trading was suspended. After World War II the operation of the Prague Exchange was not restored and in 1952 the Exchange was officially abolished. In 1990 eight banks became members of the Preparatory Committee on Stock Exchange Foundation. In 1992 this institution transformed itself into a stock exchange. The Prague Stock Exchange has been trading debt securities (mostly government and bank issues) since April 1993. Volume in mid-1993 was Kc18 million, of which two-thirds were listed issues. Leading Czech banks include: Česká spořitelna (Czech Savings Bank), Investiční a poštovní banka (Investment and Postal Bank), Komerční banka (Commercial Bank), and the Československá obchodní banka (Czechoslovak Commercial Bank).

### 34 INSURANCE

The pre-World War II insurance companies and institutions of the former Czechoslovakia were reorganized after 1945 and merged, nationalized, and centralized. Since 1952, the insurance industry has been administered by the State Insurance Office, under the jurisdiction of the Ministry of Finance. Two enterprises conducted insurance activities, the Czech and the Slovak Insurance Enterprises of the State.

Property insurance and car insurance are used by more than 80% of the population in the Czech Republic. By 2001, the Czech Republic's state insurance enterprise, Ceska Pojistovna, had been joined by nearly two dozen other firms, including branches of foreign companies. Most offer standard life and health insurance, as well as property coverage and commercial insurance. third-party auto insurance, workers' compensation, and liability for certain professions are compulsory insurance. By law however, Ceska Pojistovna must write the automobile liability cover, and it maintains control of the market.

By 1997, it had been proposed to switch the country's pay-as-you-go pension system into one incorporating mandatory private savings and voluntary pension insurance. This is to prevent the burden on the present system, caused by the aging of the population, from precipitating a future funding crisis. The relative importance of the pay-as-you-go element and the privately funded element have not been determined. The introduction of such a scheme has drawn sharp criticism from the opposition and has met with a certain amount of skepticism from the CNB, which has indicated that the quality of capital market regulation would have to improve considerably before pension funds of the kind proposed could be built up.

### 35 PUBLIC FINANCE

In the early 1990s, it was estimated that about 97% of businesses were under state control. By 2003, the non-private sector accounted for less than 20% of business ownership. In fact, the Czech Republic's economy has advanced so quickly out of communism that the country anticipates accession to the EU as early as 2004.

The US Central Intelligence Agency (CIA) estimates that in 2001 Czech Republic's central government took in revenues of approximately \$16.7 billion and had expenditures of \$18 billion. Overall, the government registered a deficit of approximately \$1.3 billion. External debt totaled \$24.6 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	16,700
Tax revenue	95.2%	15,904
Non-tax revenue	4.3%	712
Capital revenue	0.1%	12
Grants	0.4%	73
EXPENDITURES	100.0%	18,128
General public services	3.5%	637
Defense	4.5%	802
Public order and safety	4.8%	863
Education	9.3%	1,681
Health	17.3%	3,109
Social security	35.3%	6,354
Housing and community amenities	3.0%	532
Recreation, cultural, and religious affairs	1.1%	205
Economic affairs and services	13.7%	2,471
Other expenditures	5.8%	1,043
Interest payments	2.4%	431

### 36 TAXATION

Direct taxes in 2003 included a personal income tax with four brackets (15% up to yearly income of about \$4,000, 20% on income between \$4,000 and \$8,000, 25% on income between \$8,000 and \$12,000, and 32% on income above \$12,000, with additional lump sums of \$600, \$1400, and \$2400, respectively, paid at the 20%, 25%, and 32% levels); a corporate income tax with a standard rate of 31% (15% on income from dividends and mutual or pension funds); payroll taxes of 47.5% (35% paid by the employer and 12.5% paid by the employee) covering pension insurance, sickness insurance, and employment insurance); real estate taxes; gift taxes (1% to 40%) and inheritance taxes (0.5% to 20%). Since 1996, the top personal income rate has been reduced from 40% to 32%; the top corporate income tax rate from 39% to 31%, and the payroll tax rate from 50% to 47.5%. Withholding taxes are applied to income of non-residents: 15% on income from dividends and interest; and 25% on income from royalties and operating licenses. The Czech Republic has bilateral tax treaties (BITs) with about 65 countries. In the BITs withholding rates are generally lower.

The main indirect tax is a system of value-added taxes (VATs) which replaced turnover taxes as of 1 January 1993. There are three VAT rates: 22% on most goods and some services; 5% on basic foodstuffs, minerals, pharmaceuticals, medical equipment, paper products, books, newspapers, and most services; and 0% on exports and supplies of services to non-residents. There is also a 5% real estate transfer tax, payable by the seller, and deductible for income tax purposes.

### 37 CUSTOMS AND DUTIES

On 1 January 1993, Czechoslovakia divided into two independent states, the Czech Republic and the Slovak Republic. Both states maintain a customs union that continues most of the same trade policies of the former Czechoslovakia. All imports into the Czech Republic, except those from the Slovak Republic, are subject to an ad valorem rate of up to 80%, but with an average of 4.6%. There is also a value-added tax (VAT) of 22% for everything except necessities, such as food and

pharmaceuticals, for which it is 5%. Preferential treatment is granted to developing countries. The Czech Republic has trade agreements with Bulgaria, Hungary, Poland, Romania, Slovakia, and Slovenia, which comprise the Central European Free Trade Agreement (CEFTA).

### 38 FOREIGN INVESTMENT

Moody's Investors Service gave the Czech Republic the first investment-grade A rating to be awarded to a former Soviet bloc country. As of 2001, foreign direct investment (FDI) stock per capita in the Czech Republic was \$2,432, the highest among the Eastern European transitional economies. FDI has served Czech economic development in providing capital and managerial expertise for restructuring its enterprises. National treatment is the general rule, with screening of foreign investment proposals required only in banking, insurance and defense industries. A competitive exchange rate and low wages have been conducive to foreign investment, but in 1998 a six-point incentive package approved by the Czech government helped ratchet annual FDI inflows to about double previous levels. Incentives—tax breaks up to 10 years, duty-free imports, rent reductions, benefits for job creation, training grants, and incentives for reinvestments and expansions—are available for investments above \$10 million, or above \$5 million in regions where unemployment is over 25%. The Czech Republic has also authorized nine commercial or industrial custom-free zones that operate according to the same rules as those in the European Union. By 2002, the government had negotiated bilateral investment treaties (BITs) with 66 countries, the BIT with the United States in force since 1992.

From 1993 to 2001, the Czech Republic attracted \$26.76 billion cumulative FDI inflow, of which 27.6% has come from the Netherlands, 26% from Germany, 10.2% from Austria, 8.6% from France, 6.2% from the United States, 4.1% from Belgium, 3.8% from Switzerland, 3.1% from the United Kingdom, 1.9% from Denmark, and 8.5% from other countries. Annual FDI inflow jumped for about \$880 million in 1993 to 2.5 billion in 1995 due to the first foreign investment in the state-owned telecommunications system and German investment in the automotive industry. In 1997, FDI inflow had fallen back to \$1.3 billion, but in 1998, with the introduction of incentives for foreign investment, FDI inflow rose to \$3.7 billion and then spiked to \$6.3 billion in 1999. For 2000 and 2001, annual FDI was just below \$5 billion and in 2002, reached a record \$7.5 billion. By economic sector, the principal destinations for FDI flows into the Czech Republic from 1990 to 2000 have been financial intermediation (18%), whole sale trade (15%), non-metallic mineral products manufacture (7.5%), and motor vehicle manufacture (6.5%). Other significant areas have been food and beverages, energy, and retail sales.

In 2000, direct investment outflow from the Czech Republic totaled \$726 million, 37.7% to Slovenia, 25.6% to Poland, and 15.9% to Russia.

### 39 ECONOMIC DEVELOPMENT

Post-communist economic recovery has been implemented by development of the private sector, particularly in the trade and services areas, increased exports to industrialized nations, control of inflation, and achievement of a positive trade balance. The most promising growth sectors are those involving advanced technology, environmental protection, biotechnology, and, generally, high value-added production. At the end of 1996, approximately 80% of the Czech Republic's large companies had been privatized, most via voucher privatization, through which nearly six million Czechs bought vouchers exchangeable for shares in companies that were to be privatized. By 1997, however, the recovery had petered out and the Czech Republic plunged into recession which lasted through 1999. Most analysts blamed the downturn on an incomplete restructuring.

In 2002, the non-private sector accounted for only 20% of business; however, the state has retained minority shares in many heavy industrial enterprises, and many large firms were placed under the control of state-owned banks due to voucher privatization. (Bank privatization was in the completion stages in 2003.) The Czech Republic was slated to join the European Union (EU) by May 2004, and the EU has contributed significant resources to prepare the country for accession, including speeding administrative, regulatory, and judicial reform. The government is faced with high unemployment; a need for industrial restructuring; transformation of the housing sector; reform of the pension and healthcare systems; and a solution to environmental problems. The decline in industry's contribution to the economy has led to factory closings and job losses. Real gross domestic product (GDP) growth increased to 2.2% in the first quarter of 2003, despite the global economic recession and in part due to high household consumption. Growth was expected to climb to 4% in 2004. Inflation was low in 2003, as were interest rates.

### 40 SOCIAL DEVELOPMENT

Social welfare programs in the former Czechoslovakia dated back to the Austro-Hungarian Empire. Work injury laws were first introduced in 1887 and sickness benefits in 1888. During the First Republic (1918–39), social insurance was improved and extended. After World War II, new social legislation made sickness, accident, disability, and old age insurance compulsory. The trade unions administered health insurance and family allowances. The government's Bureau of Pension Insurance administered the pension insurance program, which was funded by the government and employers. In 1960, social welfare committees were established within the regional and district national committees to exercise closer control.

Current programs include old age pensions, disability, survivor benefits, sickness and maternity, work injury, unemployment and family allowances. Employers are required to contribute 19.5% of payroll, while employees contribute 6.5% to the pensions program.

In recent years, women have played an increasingly greater role in Czech society and now account for about half of the labor force. Although the principle of equal pay for equal work is generally followed, women hold a disproportionate share of lower-paying positions. The unemployment rate for women is greater than for men, and only a small number of women hold senior positions in the work force. Rape and domestic violence is underreported, although societal attitudes are slowly improving to help victims seek assistance from authorities. Crisis centers exist to help victims of sexual abuse and violence. Sexual harassment is prohibited by law.

The Roma minority, officially estimated to number 200,000 to 250,000, face discrimination in housing, employment and often are subject to harassment. Many have been denied citizenship and the rights accorded to citizens. Those without citizenship are not entitled to vote, or receive social security benefits. Racially motivated crime is on the increase. Religious freedom is generally tolerated. The Czech Republic's human rights record is generally good, although judicial backlogs result in extended pretrial detention in some cases and sporadic police violence has been reported.

### 41 HEALTH

The Czech health care system combines compulsory universal health insurance with mixed public and private care. Health insurance is funded by individuals, employers, and the government. A number of physicians have private practices and maintain contracts with the insurance system for reimbursement of their services. As of 1999, there were an estimated 3 physicians and 8.7 hospital beds per 1,000 people. In 2002 there was one

general practitioner per 1,780 persons over the age of 15. In 1999 total health care expenditure was estimated at 7.2% of GDP.

Health activities are directed by the Ministry of Health through the National Health Service. Factories and offices have health services, ranging from first-aid facilities in small enterprises to hospitals in the largest. All school children receive medical attention, including inoculations, X-rays, and annual examinations. In 1999, children up to one year of age were immunized for the following diseases: diphtheria, pertussis, and tetanus, 98%; and measles, 95%.

Special attention has been devoted to preventive medicine, with campaigns waged against tuberculosis, venereal diseases, cancer, poliomyelitis, diphtheria, and mental disturbances. Diseases of the circulatory system are the leading cause of death. Free guidance and care given to women and children have resulted in a low infant mortality rate of 4 per 1,000 live births in 2000. The total fertility rate in the same year was 1.2. The maternal mortality rate in 1998 was low at 14 maternal deaths per 100,000 live births. Average life expectancy in 2000 was 75 years, with an overall death rate of 11 per 1,000 people. In 1999 there were 19 cases of tuberculosis per 100,000 people. As of 1999, the number of people living with HIV/AIDS was estimated at 2,200 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.04 per 100 adults.

#### 42 HOUSING

Currently, the lack of affordable housing, which inhibits labor mobility, is a major factor slowing economic growth in the Czech Republic. Problems include lack of financing, shortages of materials and labor, and a poorly developed infrastructure. In the mid-1990s the government drafted a new housing policy which, among other things, would lift existing restrictive legal provisions barring occupants from buying and reselling flats and differentiate rents according to quality and location of flats.

According to the 2001 census, there were about 4,369,239 dwelling units within the country with about 87% permanently occupied. About 1,983,521 dwellings are houses. There is an average of 2.69 people per household.

#### 43 EDUCATION

Education is under state control and free, up to and including the university level. The government reports virtually no illiteracy. In 1996, 541,671 students were enrolled in 4,889 nine-year (or primary) schools, with 28,356 teachers. In the same year, secondary schools enrolled 1,190,725 students and employed 144,373 teachers. The pupil-teacher ratio at the primary level was 17 to 1 in 1999. In the same year, 90% of primary-school-age children were enrolled in school, while 84% of those eligible attended secondary school. As of 1999, public expenditure on education was estimated at 4.2 % of GDP.

The universities, colleges, and advanced schools in the Czech Republic had a total of 207,221 students in 1997. Universities in the current Czech Republic include the world-famous Charles University at Prague (founded 1348); Palacky University at Olomouc (1576; reestablished 1946); and J. E. Purkyne University at Brno (1919; reestablished 1945).

#### 44 LIBRARIES AND MUSEUMS

The National Library of the Czech Republic (5.8 million volumes in 2002) in Prague is the result of a 1958 amalgamation of six Prague libraries, including the venerable University Library, founded in 1348. It holds a valuable expensive collection of Mozart's papers and manuscripts. Other collections of significance are the university libraries at Brno and Olomouc. The State Research Library, including all six of its branches, holds more than six million volumes. In 1997, the Czech Republic had 6,245 public libraries with 53.7 million volumes and 1.4 million registered users.

Castles, mansions, churches, and other buildings of historical interest are public property. Many serve as museums and galleries. The largest museum in the country is the world-famous National Museum in Prague. The National Gallery, also in Prague, contains outstanding collections of medieval art and 17th-century and 18th-century Dutch paintings. There is also a remarkable Jewish Museum in Prague. Other outstanding museums and galleries are located in Brno and Plzen. The Prague Botanical Gardens are among the finest in Europe.

#### 45 MEDIA

As of 2000, there were 3.8 million main line and 4.3 million mobile cellular phones in use. Privatization and modernization of the telecommunication system was advancing steadily. In 1995 the waiting time for new telephone service was from five to ten years, but after a Kc130 billion investment for a system upgrade, waiting time was down to only about two months by 2000. Also in 2000, there were 31 AM and 304 FM radio stations and 150 television stations. The Czech Republic had 803 radios and 508 television sets per 1,000 people the same year. There were about 93 cable subscribers for every 1,000 people. There were about 122 personal computers per 1,000 people and more than 300 Internet service providers serving about 1.1 million people.

The following table lists major newspapers, their publishers, and estimated 2002 circulations:

	PUBLISHER	CIRCULATION
<i>Blesk</i>	NA	420,000
<i>Hospodarske Noviny</i>	NA	130,000
<i>Mladá Fronta</i>	Socialist Union of Youth	350,000
<i>Moravskoslezsky Den</i>	NA	130,000
<i>Obansky Denikof</i>	NA	109,000
<i>Práce</i>	Revolutionary Trade Union Movement	220,600
<i>Rudé Právo</i>	Communist Party	350,000
<i>Svobodné Slovo</i>	Socialist Party	230,000
<i>Svoboda</i>	NA	100,000
<i>Vecernik Praha</i>	NA	130,000

Formerly, the Communist Party and the government controlled all publishing. Formal censorship, via the government's Office for Press and Information, was lifted for three months during the Prague Spring of 1968, but prevailed after that time until the late 1980s. As of 1999, the government was said to fully uphold the legally provided freedoms of free speech and a free press.

#### 46 ORGANIZATIONS

The Czech Republic's 1991 Constitutional Law Guarantees its workers the right to form and join unions. Seventy percent of all Czech workers belong to a labor organization. The most important umbrella labor organization is the Czech and Slovak Confederation of Trade Unions, an organization that promotes democracy. The World Federation of Trade Unions has an office in Prague. Professional societies representing a wide variety of careers are also active. Important political associations include the Czech Democratic Left Movements and the Civic Movement.

The Academy of Science of the Czech Republic was founded in 1993 to support and encourage research and educational institutions involved in the fields of natural and technical sciences, social sciences, and humanities. Youth organizations include the Czech Association of Scouts and Guides (CASG), YMCA and YWCA, and chapters of The Red Cross Youth. National women's organizations include the Gender Studies Center in Prague and the Czech Union of Women.

Multinational organizations based in Prague include the International Association for Vehicle Systems Dynamics and the International Union of Speleology. There are national chapters of Amnesty International and the Red Cross.

## 47 TOURISM, TRAVEL, AND RECREATION

Prague, which survived World War II relatively intact, has numerous palaces and churches from the Renaissance and Baroque periods. There are many attractive mountain resorts, especially in northern Bohemia. Football (soccer), ice hockey, skiing, canoeing, swimming, and tennis are among the favorite sports. A passport is required for all foreign nationals, whether temporary visitors or transit passengers. Visitors from some countries (including the United States and the United Kingdom) do not need visas.

In 2000, tourist arrivals reached 104,246,611 and tourist receipts amounted to \$2.8 billion. That year there were 96,399 hotel rooms with 236,476 beds and an occupancy rate of 46%.

In 2002 the US government estimated the cost of staying in Prague at \$233 per day.

## 48 FAMOUS CZECHS

The founder of modern Czechoslovakia was Tomáš Garrigue Masaryk (1850–1937), a philosopher-statesman born of a Slovak father and a Czech mother. Eduard Beneš (1884–1948), cofounder with Masaryk of the Czechoslovak Republic, was foreign minister, premier, and president of the republic (1935–38 and 1940–48). Jan Masaryk (1886–1948), son of Tomáš G. Masaryk, was foreign minister of the government-in-exile and, until his mysterious death, of the reconstituted republic. Klement Gottwald (1896–1953) became a leader of the Czechoslovak Communist Party in 1929 and was the president of the republic from 1948 to 1953; Antonín Zápotocký (1884–1957), a trade union leader, was president from 1953 to 1957. Alexander Dubček (1921–92) was secretary of the Czechoslovak Communist Party and principal leader of the 1968 reform movement that ended with Soviet intervention. Gen. Ludvík Svoboda (1895–1979) was president of the republic from 1968 to 1975. Gustáv Husák (1913–91) was general secretary of the Communist Party from 1969 to 1987; he became president of the republic in 1975. Parliamentary elections at the end of 1989 saw the rise of the playwright Vaclav Havel (b. 1936) to power. The Czech and Slovak republics decided to split in 1992. Havel was elected president of the Czech Republic in parliamentary elections. Vaclav Klaus was elected prime minister. Perhaps the two most famous Czechs are the religious reformer John Huss (Jan Hus, 1371–1415) and the theologian, educator, and philosopher John Amos Comenius (Jan Amos Komenský, 1592–1670), an early advocate of universal education. *The History of the Czech People* by František Palacký (1798–1876) inspired Czech nationalism. Karel Havlíček (1821–56) was a leading political journalist, while Alois Jirásek (1851–1930) is known for his historical novels. The most famous woman literary figure is Božena Němcová (1820–62), whose *Babička* (*The Grandmother*), depicting country life, is widely read to this day. A poet of renown, Jaroslav Vrchlický (1853–1912) wrote voluminous poetry and translations. *The Good Soldier Schweik* by Jaroslav Hašek (1883–1923) is a renowned satire on militarism. Karel Capek (1890–1938), brilliant novelist, journalist, and playwright, is well known for his play *R.U.R.* (in which he coined the word *robot*). Bedřich Smetana (1824–84), Antonín Dvořák (1841–1904), Leoš Janáček (1854–1928), and Bohuslav Martinů (1890–1959) are world-famous composers. The leading modern sculptor, Jan Stursa (1880–1925), is best known for his often-reproduced *The Wounded*.

Prominent 20th-century Czech personalities in culture and the arts include the writers Vladislav Vančura (1891–1942) and Ladislav Fuks (b.1923), the painter Jan Zrzavý (1890–1977), and the Czech filmmakers Jirí Trnka (1912–69) and Karel Zeman (1910–89). Leaders of the “new wave” of Czechoslovak cinema in the 1960s were Ján Kadár (1918–79) and Miloš Forman (b.1932), both expatriates after 1968. The best-known political

dissidents in the 1970s and 1980s were the playwrights Pavel Kohout (b.1928) and Václav Havel (b.1936), and the sociologist Rudolf Battěk (b.1924). The novelist Milan Kundera (b.1929), who has lived in France since 1975, is the best-known contemporary Czech writer. Two Czechs have become top world tennis players: Martina Navrátilová (b.1956), expatriate since 1975, and Ivan Lendl (b.1960).

There have been only two Czechoslovak Nobel Prize winners: in chemistry in 1959, Jaroslav Heyrovský (1890–1967), who devised an electrochemical method of analysis; and in literature in 1984, the poet Jaroslav Seifert (1901–84).

## 49 DEPENDENCIES

The Czech Republic has no territories or colonies.

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# DENMARK

Kingdom of Denmark  
*Kongeriget Danmark*

**CAPITAL:** Copenhagen (København)

**FLAG:** The Danish national flag, known as the Dannebrog, is one of the oldest national flags in the world, although the concept of a national flag did not develop until the late 18th century when the Dannebrog was already half a millennium old. The design shows a white cross on a field of red.

**ANTHEM:** There are two national anthems—*Kong Kristian stod ved højen mast* (*King Christian Stood by the Lofty Mast*) and *Der er et yndigt land* (*There Is a Lovely Land*).

**MONETARY UNIT:** The krone (KR) of 100 øre is a commercially convertible paper currency with one basic official exchange rate. There are coins of 25 and 50 øre, and 1, 5, 10, and 20 kroner, and notes of 50, 100, 500, and 1,000 kroner. KR1 = \$0.1477 (or \$1 = KR6.77) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some local units are used for special purposes.

**HOLIDAYS:** New Year's Day, 1 January; Constitution Day, 5 June; Christmas Day, 25 December; Boxing Day, 26 December. Movable religious holidays include Holy Thursday, Good Friday, Easter Monday, Prayer Day (4th Friday after Easter), Ascension, and Whitmonday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in southern Scandinavia, the Kingdom of Denmark consists of Denmark proper, the Faroe Islands, and Greenland. Denmark proper, comprising the peninsula of Jutland (Jylland) and 406 islands (97 of them inhabited), has an area of 43,094 sq km (16,638 sq mi) and extends about 402 km (250 mi) N–S and 354 km (220 mi) E–W. Comparatively, the area occupied by Denmark is slightly less than twice the size of the state of Massachusetts. The Jutland Peninsula accounts for 29,767 sq km (11,493 sq mi) of the total land area, while the islands have a combined area of 13,317 sq km (5,142 sq mi). Except for the southern boundary with Germany, the country is surrounded by water—Skagerrak on the N, Kattegat, Øresund, and Baltic Sea on the E, and the North Sea on the W. Denmark's total boundary length is 7,382 km (4,587 mi), of which only 68 km (42 mi) is the land boundary with Germany.

Bornholm, one of Denmark's main islands, is situated in the Baltic Sea, less than 160 km (100 mi) due E of Denmark and about 40 km (25 mi) from southern Sweden. It has an area of 588 sq km (227 sq mi) and at its widest point is 40 km (25 mi) across.

Denmark's capital city, Copenhagen, is located on the eastern edge of the country on the island of Sjaelland.

## <sup>2</sup>TOPOGRAPHY

The average altitude of Denmark is about 30 m (98 ft), and the highest point, Yding Skovhøj in southeastern Jutland, is only 173 m (568 ft). In parts of Jutland, along the southern coast of the island of Lolland, and in a few other areas, the coast is protected by dikes. All of Denmark proper (except for the extreme southeast of the island of Bornholm, which is rocky) consists of a glacial deposit over a chalk base. The surface comprises small hills, moors, ridges, hilly islands, raised sea bottoms, and, on the west coast, downs and marshes. There are many small rivers and inland seas. Good natural harbors are provided by the many fjords and bays.

## <sup>3</sup>CLIMATE

Denmark has a temperate climate, the mildness of which is largely conditioned by the generally westerly winds and by the fact that the country is virtually encircled by water. There is little fluctuation between day and night temperatures, but sudden changes in wind direction cause considerable day-to-day temperature changes. The mean temperature in February, the coldest month, is 0°C (32°F), and in July, the warmest, 17°C (63°F). Rain falls fairly evenly throughout the year, the annual average amounting to approximately 61 cm (24 in).

## <sup>4</sup>FLORA AND FAUNA

Plants and animals are those common to middle Europe. There are many species of ferns, flower, fungi, and mosses; common trees include spruce and beech. Few wild or large animals remain. Birds, however, are abundant; many species breed in Denmark and migrate to warmer countries during the autumn and winter. Fish and insects are plentiful.

## <sup>5</sup>ENVIRONMENT

Denmark's most basic environmental legislation is the Environmental Protection Act of 1974, which entrusts the Ministry of the Environment, in conjunction with local authorities, with antipollution responsibilities. The basic principle is that the polluter must pay the cost of adapting facilities to environmental requirements; installations built before 1974, however, are eligible for government subsidies to cover the cost of meeting environmental standards. Land and water pollution are two of Denmark's most significant environmental problems although much of Denmark's household and industrial waste is recycled. In the mid-1990s, Denmark averaged 447.3 thousand tons of solid waste per year. Animal wastes are responsible for polluting both drinking and surface water. Nitrogen and phosphorus pollution threaten the quality of North Sea waters. A special treatment plant at Nyborg, on the island of Fyn, handles dangerous chemical and oil wastes. The nation has 6

cu km of renewable water resources with 16% used for farming and 9% for industrial purposes.

Remaining environmental problems include air pollution, especially from automobile emissions; excessive noise, notably in the major cities; and the pollution of rivers, lakes, and open sea by raw sewage. In the early 1990s Denmark ranked among 50 nations with the heaviest industrial carbon dioxide emissions. In 1996, emissions totaled 56.5 million metric tons per year. As of 2001, Denmark had 220 protected sites, with an area of 1.3 million ha, or about 32% of the total land area. As of 2001, the list of threatened species included three species of mammals and two breeding bird species. Endangered species include the coalfish whale, blue whale, loggerhead, leatherback turtle, and Atlantic sturgeon.

## 6 POPULATION

The population of Denmark in 2003 was estimated by the United Nations at 5,364,000, which placed it as number 107 in population among the 193 nations of the world. In that year approximately 15% of the population was over 65 years of age, with another 19% of the population under 15 years of age. There were 98 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.24%, with the projected population for the year 2015 at 5,447,000. The population density in 2002 was 125 per sq km (323 per sq mi).

It was estimated by the Population Reference Bureau that 85% of the population lived in urban areas in 2001. The capital city, Copenhagen, had a population of 1,383,000 in that year. Other large towns are Aarhus (Arhus), 267,873; Odense, 179,487; Aalborg (Alborg), 156,614; Esbjerg, 80,843; and Randers, 61,440. According to the United Nations, the urban population growth rate for 2000–2005 was 0.2%.

## 7 MIGRATION

Emigration is limited, owing mainly to the relatively high standard of living in Denmark. There are 500 refugees accepted every year by Denmark for resettlement. These refugees are those who need an alternative place to their first country of asylum, usually for protection-related reasons. In 1998, Denmark received 5,699 asylum applications; of these, 55% were given permission to stay. The main countries of origin were Iraq, Somalia, the Federal Republic of Yugoslavia, Afghanistan, and Iran. An Integration Act was enacted as of 1 January 1999. Under this act, most foreign nationals, including refugees, must participate in a three-year integration program, during which their social assistance is reduced.

In April 1999 the government enacted a plan—"Lex Kosovo"—providing temporary protection for evacuees from Macedonia (Kosovars who had already sought asylum in Denmark but whose cases were pending or had been rejected). Under this plan, all were granted temporary protection for a renewable six-month period. As of August 1999, 2,823 people had been evacuated from Macedonia to Denmark.

In 1999 the net migration rate was 3.22 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The population of Denmark proper is of indigenous northern European stock, and the Danes are among the most homogeneous peoples of Europe. The population is comprised of Scandinavian, Inuit (Eskimo), and Faroese peoples. There is also a small German minority in southern Jutland and small communities of Turks, Iranians, and Somalis.

## 9 LANGUAGES

Danish is the universal language. In addition to the letters of the English alphabet, it has the letters *ae*, *ø*, and *å*. A spelling reform

of 1948 replaced *aa* by *å*, but English transliteration usually retains the *aa*. There are many dialects, but they are gradually being supplanted by standard Danish. Modern Danish has departed further from the ancient Nordic language of the Viking period than have Icelandic, Norwegian, and Swedish (to which Danish is closely related), and there is a substantial admixture of German and English words. Danish may be distinguished from the other Scandinavian languages by its change of *k*, *p*, and *t* to *g*, *b*, and *d*, in certain situations and by its use of the glottal stop. Faroese and Greenlandic (an Eskimo dialect) are also used. Many Danes have a speaking knowledge of English and German, and many more are capable of understanding these languages.

## 10 RELIGIONS

Religious freedom is provided by the constitution. Over 86% of the people are members of the official religion, the Evangelical Lutheran Church, which is supported by the state and headed by the sovereign. Muslims are the next largest group with about 2% of the population. Protestants and Roman Catholics together make up another 3% of the population. About 9% of the population claim no religious affiliation.

In 1999 an independent four-member council appointed by the government published guidelines and principles for official approval of religious organizations. The guidelines establish clear requirements that religious organizations must fulfill, including providing a full written text of the religion's central traditions, descriptions of its rituals, an organizational structure accessible for public control and approval, and constitutionally elected representatives who can be held responsible by authorities. The guidelines also forbid organizations to "teach or perform actions inconsistent with public morality or order."

## 11 TRANSPORTATION

Transportation is highly developed in Denmark. The road system is well engineered and adequately maintained. Among the most important bridges are the Storstrom Bridge linking the islands of Sjaelland and Falster, and the Little Belt Bridge linking Fyn and Jutland. A new train and auto link joins Sjaell and Fyn (18 km/11 mi); a new series of bridges connecting Denmark to Sweden—spanning 4.9 mi across the Oresund Strait and costing Kr13.9 billion—opened in July 2000. The link reduces transit time between the two countries to 15 minutes for cars and trucks and less than 10 minutes for high speed trains. Cars travel on the upper tier and trains on the lower. As of 2002, Denmark had 71,474 km (44,414 mi) of paved roadways, including 880 km (547 mi) of expressways.

The railway system had a total of 2,859 km (1,777 mi) as of 2002, of which 508 km (316 mi) were privately owned and operated.

The Danish merchant fleet as of 2002 was composed of 301 ships of at least 1,000 GRT, for a total of 6,258,959 GRT (8,143,520 DWT). The majority of these vessels belonged to the Danish International Registry, an offshore registry program allowing foreign-owned vessels to sail under the Danish flag. Denmark, which pioneered the use of motor-driven ships, has many excellent and well-equipped harbors, of which Copenhagen is the most important.

There were 116 airports in 2001, of which 28 had paved runways. Kastrup Airport near Copenhagen is a center of international air traffic. Domestic traffic is handled by Danish Airlines in conjunction with SAS, a joint Danish, Norwegian, and Swedish enterprise. In 2001, 6,382,100 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Although there is evidence of agricultural settlement as early as 4000 BC and of bronze weaponry and jewelry by 1800 BC, Denmark's early history is little known. Tribesmen calling



LOCATION: 54°33' 31" to 57°44' 55" N; 8°4' 36" to 15°11' 59" E. BOUNDARY LENGTHS: Germany, 68 kilometers (42 miles); total coastline, 7,314 kilometers (4,545 miles). TERRITORIAL SEA LIMIT: 3 miles.

themselves Danes arrived from Sweden around AD 500, and Danish sailors later took part in the Viking raids, especially in those against England. Harald Bluetooth (d.985), first Christian king of Denmark, conquered Norway, and his son Sweyn conquered England. During the reign of Canute II (1017–35), Denmark, Norway, and England were united, but in 1042, with the death of Canute's son, Hardecanute, the union with England came to an end, and Norway seceded. During the next three

centuries, however, Danish hegemony was reestablished over Sweden and Norway, and in the reign of Margrethe (1387–1412) there was a union of the Danish, Norwegian, and Swedish crowns. In 1523, the Scandinavian union was dissolved, but Norway remained united with Denmark until 1814.

The Reformation was established in Denmark during the reign of Christian III (1534–59). A series of wars with Sweden during the 17th and early 18th centuries resulted in the loss of Danish



territory. Meanwhile, under Frederik III (r.1648–70) and Christian V (r.1670–99), absolute monarchy was established and strengthened; it remained in force until 1849. Freedom of the press and improved judicial administration, introduced by Count Johann von Struensee, adviser (1770–72) to Christian VII, were abrogated after his fall from favor. Having allied itself with Napoleon, Denmark was deprived of Norway by the terms of the Peace of Kiel (1814), which united Norway with Sweden; and as a result of the Prusso-Danish wars of 1848–49 and 1864, Denmark lost its southern provinces of Slesvig, Holstein, and Lauenburg. Thereafter, the Danes concentrated on internal affairs, instituting important economic changes (in particular, specialization in dairy production) that transformed the country from a nation of poor peasants into one of prosperous smallholders. Denmark remained neutral in World War I, and after a plebiscite in 1920, North Slesvig was reincorporated into Denmark.

Disregarding the German-Danish nonaggression pact of 1939, Hitler invaded Denmark in April 1940, and the German occupation lasted until 1945. At first, the Danish government continued to function, protecting as long as it could the nation's Jewish minority and other refugees (some 7,200 Jews eventually escaped to neutral Sweden). However, when a resistance movement developed, sabotaging factories, railroads, and other installations, the Danish government resigned in August 1943 rather than carry out the German demand for the death sentence against the saboteurs. Thereafter, Denmark was governed by Germany directly, and conflict with the resistance intensified.

After the war, Denmark became a charter member of the UN and of NATO. In 1952, it joined with the other Scandinavian nations to form the Nordic Council, a parliamentary body. Having joined EFTA in 1960, Denmark left that association for the EEC in 1973. Meanwhile, during the 1950s and 1960s, agricultural and manufacturing production rose considerably, a high level of employment was maintained, and foreign trade terms were liberalized. However, the expense of maintaining Denmark's highly developed social security system, growing trade deficits (due partly to huge increases in the price of imported oil), persistent inflation, and rising unemployment posed political as well as economic problems for Denmark in the 1970s and 1980s, as one fragile coalition government succeeded another.

Economic performance was strong after the mid-1990s. Annual growth of GDP was 3% between 1994 and 1998 although the rate dropped to 1.6% in 1999. (It was projected to be 2.5% in 2004.) Thanks to strong growth, unemployment fell from 12.2% in 1994 to 6% in 1999. In March 2000, the buoyant economic outlook prompted Prime Minister Poul Nyrup Rasmussen to announce a referendum on Economic and Monetary Union to take place on 28 September 2000; it was rejected by 53.2% of the electorate. Voters narrowly rejected the Maastricht Treaty on European Union in 1992, but later approved it in 1993 after modifications were made in Denmark's favor. One of the special agreements was that Denmark could opt not to join EMU. For all practical purposes, however, Danish monetary policy has closely followed that of the European Central Bank and the Danish crown shadows the euro (the European single currency).

As with other European countries, Denmark in the 21st century sees illegal immigration as a major problem. The issue was a deciding one in the 20 November 2001 elections, with the right-wing xenophobic Danish People's Party (founded in 1995) gaining 12% of the vote and 22 seats in parliament. The new government composed of the Liberal Party and the Conservative People's Party formed by Prime Minister Anders Fogh Rasmussen depended upon the Danish People's Party for legislative support. In June 2002, parliament passed a series of laws restricting the rights of immigrants, including the abolition of the right to asylum on humanitarian grounds, and cuts of 30–40% in the

social benefits available to refugees during their first seven years of residency.

### 13 GOVERNMENT

Denmark is a constitutional monarchy. Legislative power is vested jointly in the crown and a unicameral parliament (Folketing), executive power in the sovereign—who exercises it through his or her ministers—and judicial power in the courts. The revised constitution of 1953 provides that powers constitutionally vested in Danish authorities by legislation may be transferred to international authorities established, by agreement with other states, for the promotion of international law and cooperation.

The sovereign must belong to the Lutheran Church. The crown is hereditary in the royal house of Lyksborg, which ascended the throne in 1863. On the death of a king, the throne descends to his son or daughter, a son taking precedence.

Executive powers belong to the crown, which enjoys personal integrity and is not responsible for acts of government. These powers are exercised by the cabinet, consisting of a prime minister and a variable number of ministers, who generally are members of the political party or coalition commanding a legislative majority. No minister may remain in office after the Folketing has passed a vote of no confidence in him or her.

The single-chamber Folketing, which has been in existence since 1953, is elected every four years (more frequently, if necessary) by direct and secret ballot by Danish subjects 18 years of age and older. Under the 1953 constitution there are 179 members, two of whom are elected in the Faroe Islands and two in Greenland. Of the remaining 175 members, 135 are elected by proportional representation in 17 constituencies, and 40 supplementary seats are divided among the parties in proportion to the total votes cast.

A parliamentary commission, acting as the representative both of the Folketing and of the nation, superintends civil and military government administration.

### 14 POLITICAL PARTIES

Until 1849, the Danish form of government was autocratic. The constitution of 1849 abolished privileges, established civil liberties, and laid down the framework of popular government through a bicameral parliament elected by all men over 30. In 1866, however, the National Liberal Party, composed largely of the urban middle class, succeeded in obtaining a majority for a constitution in which the upper chamber (Landsting) was to be elected by privileged franchise, the great landowners gaining a dominant position. This proved the starting point of a political struggle that divided Denmark until 1901. Formally, it concerned the struggle of the directly elected chamber, the Folketing, against the privileged Landsting, but in reality it was the struggle of the Left Party (made up largely of farmers, but after 1870 also of workers) to break the monopoly of political influence by the Right Party (consisting of the landowning aristocracy and the upper middle class). Meanwhile, the workers established trade unions, their political demands finding expression in the Social Democratic Party. In 1901, Christian IX called on the Left to form a government, and thereafter it was the accepted practice that the government should reflect the majority in the Folketing.

During the German occupation (1940–45), a coalition government was formed by the main political parties, but increasing Danish popular resistance to the Germans led the Nazis to take over executive powers. From 1945 to 1957, Denmark was governed by minority governments, influence fluctuating between the Social Democrats on the one hand and the Moderate Liberals and Conservatives on the other, depending on which of the two groups the Social Liberals supported. In 1953, a new constitution abolished the Landsting and introduced

a single-chamber system in which parliamentarianism is expressly laid down. In 1905, the Left Party split. Its radical wing, which seceded, became a center party, the Social Liberals, and sought to collaborate with the Social Democrats. In 1913, these two parties together obtained a majority in the Folketing, and a Social Liberal government led Denmark through World War I. A new constitution adopted in 1915 provided for proportional representation and gave the vote to all citizens, male and female, 25 years of age and older (changed in 1978 to 18 years). In an attempt to obtain a broader popular base, the old Right Party adopted the name Conservative People's Party, and thenceforth this party and the Moderate Liberals (the old Left Party), the Social Liberals, and the Social Democrats formed the solid core of Danish politics. The Social Democrats briefly formed governments in 1924 and in 1929, in association with the Social Liberals.

Aims of the Social Democratic Party are to nationalize monopolies, redistribute personal incomes by taxation and other measures, partition farm properties to form independent smallholdings, and raise working-class living standards through full employment. It supports the principle of mutual aid, as practiced in a combination of social welfare and widespread public insurance schemes. The Conservative Party advocates an economic policy based on the rights of private property and private enterprise and is firmly opposed to nationalization and restrictions, though it is in favor of industrial protection. It calls for a national contributory pensions scheme that would encourage personal initiative and savings. The major parties support the UN and NATO and favor inter-Scandinavian cooperation.

Issues in the 1970s focused less on international matters than on policies affecting Denmark's economy. The general elections of December 1973 resulted in heavy losses for all the established parties represented in the Folketing and successes for several new parties, notably the center-left Democratic Center Party and the "Poujadist" Progress Party led by Mogens Glistrup, an income tax expert who reputedly became a millionaire by avoiding taxes and providing others with advice on tax avoidance. The Progress Party, established early in 1973, advocated the gradual abolition of income tax and the dissolution of over 90% of the civil service. The Social Democrats, who had been in power, lost significantly in this election, and their chairman, Anker Jørgensen, resigned as prime minister. In mid-December, Poul Hartling was sworn in as prime minister, with a Liberal Democratic cabinet. The 22 Liberal members in the Folketing made up the smallest base for any government since parliamentary democracy was established in Denmark.

When it became clear in December 1974 that the Folketing would not approve the drastic anti-inflation program the Hartling government had announced, general elections were again called for. In the January 1975 balloting, the Liberals almost doubled their representation in the Folketing. However, because most of the other non-Socialist parties had lost support and because three of the four left-wing parties simultaneously gained parliamentary seats, the preelection lack of majority persisted, and Hartling resigned at the end of the month. After several attempts at a coalition by Hartling and Anker Jørgensen, the latter's alignment of Social Democrats and other Socialist-oriented minority parties finally succeeded in forming a new government. Jørgensen remained prime minister through general elections in 1977, 1979, and 1981. In September 1982, however, dissension over Jørgensen's plan to increase taxes in order to create new jobs, boost aid to farmers, and reduce the budget deficit led the government to resign. A four-party coalition led by Poul Schlüter, the first Conservative prime minister since 1901, then took power as a minority government, controlling only 66

seats out of 179. After the defeat of his 1984 budget, Schlüter called for new elections, which were held in January 1984 and increased the number of seats controlled by the coalition to 79. Following elections in September 1987, however, the number of seats held by the coalition fell to 70.

The 1994 election brought to power a three-party coalition of Social Democrats, Center Democrats, and Radical Liberals (they commanded a total of 76 seats in the 179-seat parliament). The 1994 election produced significant difficulties for the political right. The Conservatives were usually the major right-wing force with a legacy of heading governments but it saw its representation drop to 28 seats from 31 while the Liberal Party increased its share of the vote from 15.8% to 23.3% and thereby became the largest opposition party. The center-left coalition survived the departure of the Center Democrats in 1996, which rejected Prime Minister Poul Nyrup Rasmussen's decision to seek support for the 1997 budget from the far left. The fragile two-party coalition stumbled from one crisis to another in 1997 and the 1998 election promised to bring a Liberal-Conservative cabinet back to power. In February 1998, the Social Democrats recovered in opinion polls and Nyrup Rasmussen called a snap election.

The election results were as follows: Social Democrats 35.9% (65 seats), Radical Liberals 3.9% (7 seats), Center Democrats 4.3% (8 seats), Christian People's Party 2.5% (4 seats), Socialist People's Party 7.6% (13), Unity Party 2.7% (5 seats), Liberals 23% (43), Conservatives 8.9% (17), Progress Party 2.4% (4), and Danish People Party 7.4% (13 seats). Following the 1998 election, the Social Democratic and Radical Liberal coalition remained intact with Nyrup Rasmussen as prime minister. The Conservatives suffered a dramatic defeat and saw their share of the vote drop from 15% to 8.9%. The two far right parties—the Danish People's Party and the Progress Party—recorded the biggest gains by taking votes from the mainstream right-wing parties. In March 2000, Nyrup Rasmussen reshuffled his cabinet to breathe new life into government and to respond to the pressures coming from the Danish People's Party, which accused the government of being soft on immigration. Campaigning on a platform "Denmark for the Danes," the People's Party is attracting a large number of sympathizers.

The issue of immigration remained primary in the early elections called for by Nyrup Rasmussen on 20 November 2001. Nyrup Rasmussen's Social Democrats suffered a major defeat, gaining only 29.1% of the vote and 52 seats. Center-right parties gained their largest majority since 1926. The Liberal Party (31.3% of the vote and 56 seats) the Conservative People's Party (9.1% and 16 seats) formed a minority government headed by Anders Fogh Rasmussen (no relation to Poul Nyrup Rasmussen) that depended upon the anti-immigrant Danish People's Party (12% and 22 seats) for legislative support. Other parties represented in the Folketing following the 2001 elections were as follows: Socialist People's Party, 6.4% (12 seats); Radical Left, 5.2% (9 seats); Unity List—the Red Greens, 2.4% (4 seats); Christian People's Party, 2.3% (4 seats); and the 2 representatives each from the Faroe Islands and Greenland.

## 15 LOCAL GOVERNMENT

A major reform of local government structure took effect on 1 April 1970. Copenhagen and Fredericksberg enjoy dual status as both local and county authorities. The previous distinction between boroughs and urban and rural districts was abolished, and the number of counties was reduced from 25 to 14. The primary local units, reduced from 1,400 to 275, are governed by an elected council (*kommunalbestyrelse*) composed of 9 to 31 members who, in turn, elect a mayor (*borgmester*) who is vested with executive authority. Each county is governed by an elected

county council (*amtsråd*), which elects its own chairman, or county mayor (*amtsborgmester*). County councils look after local matters, such as road building and maintenance, health and hospital services, and general education.

The Faroe Islands and Greenland enjoy home rule, with Denmark retaining responsibility for foreign affairs, defense, and monetary matters. Representatives of the Faroe Islands announced plans to organize a referendum on independence from Denmark by fall 2000. The government's response was to threaten to cut off all aid to the Faroese if they opted for independence. The referendum planned for May 2001 was cancelled.

## 16 JUDICIAL SYSTEM

As a rule, cases in the first instance come before one of 82 county courts. Certain major cases, however, come under one of the two High Courts (*Landsrettes*), in Copenhagen and Viborg, in the first instance; otherwise these courts function as courts of appeal. The High Courts generally sit in chambers of three judges. In jury trials (only applicable in cases involving serious crimes) three High Court judges sit with 12 jurors. The Supreme Court (*Højesteret*) is made up of a president and 18 other judges, sitting in two chambers, each having at least five judges; it serves solely as a court of appeal for cases coming from the High Courts. Special courts include the Maritime and Commercial Court and the Tax Tribunal. An Ombudsman elected by and responsible to Parliament investigates citizen complaints against the government or its ministers.

The judiciary is fully independent of the executive and legislative branches. Judges are appointed by the monarch on recommendation of the Minister of Justice and serve to age 70. They may be dismissed only for negligence or for criminal acts. Denmark accepts compulsory jurisdiction of the International Court of Justice with reservations.

## 17 ARMED FORCES

Since 1849 Danish military defense has been based on compulsory national service. All young men must register at the age of 18 and are subject to 9–12 months service. Voluntary military service is popular because of educational benefits. Total active armed forces numbered 22,700 in 2002, including 685 women. The army consisted of 12,800 personnel, the navy 4,000, and the air force 4,500. There were also 64,900 members of the reserves and 61,500 in the volunteer home guard. Danish forces participated in UN and peacekeeping missions in 14 regions around the globe, and provided support for Operation Enduring Freedom. Military expenditures for 2000 amounted to \$2.5 billion or 1.4% of GDP.

## 18 INTERNATIONAL COOPERATION

Denmark became a charter member of the UN on 24 October 1945 and belongs to ECE and all the nonregional specialized agencies. In association with WHO, Denmark has supported UN relief work by supplying medical personnel to assist developing countries and by sending out the hospital ship *Jutlandia* during the Korean War. The European regional office of WHO is in Copenhagen. Denmark participates actively in multilateral technical aid programs, and the Danish Council for Technical Cooperation provides additional aid to developing countries in Asia and Africa. The nation also assists the African Development Bank and the Asian Development Bank. Denmark is a member of NATO and of various inter-European organizations including the Council of Europe and the OECD. Until 1 January 1973, when it joined the EC (now the EU), Denmark had been a member of EFTA.

Denmark, a member of the Nordic Council, cooperates with other northern countries—Finland, Iceland, Norway, and

Sweden—in social welfare and health insurance legislation and in freeing its frontiers of passport control for residents of other Scandinavian countries. The nation has signed the Law of the Sea and is a member of the WTO.

## 19 ECONOMY

Denmark was traditionally an agricultural country. Since the end of World War II, however, manufacturing gained rapidly in importance and now contributes more than does agriculture to national income. As of 2002, however, the service sector accounted for over 70% of GDP. Denmark has always been a prominent maritime nation, and since much Danish shipping operates entirely in foreign waters, it contributes considerably to the nation's economy. Denmark also has important investments abroad.

Danish living standards and purchasing power are among the highest in the world, but the domestic market is limited by the small population, and most important industries must seek foreign markets in order to expand. Natural resources are limited, and therefore Denmark must export in order to pay for the raw materials, feeds, fertilizers, and fuels that must be imported. As a result, and because international competition makes it difficult for Denmark to accumulate adequate foreign exchange reserves, the national economy has been greatly influenced by trends and developments abroad, over which it can exercise little or no control. Since the Danes joined the EC (now EU) on 1 January 1973, this problem has been alleviated somewhat. Integration into the Union's common agricultural policy has considerably improved Danish terms of trade by providing higher prices.

Productivity increased greatly in the postwar period. In agriculture the volume index for production rose steadily, while the agricultural labor force decreased. Similarly, improved techniques and mechanization in industry enabled production to increase, despite a percentage decline in the number of persons employed.

From 1961 to 1971, the average annual rate of price increases in Denmark was 6.1%; in 1972, it was 6.6%; in 1973, 9.3%; and in 1974, partly because of rising oil costs, 15.2%. Throughout the remainder of the 1970s and through 1982, inflation remained in the 9–12% bracket. It then dropped from 6.9% in 1983 to 1.3% in 1993. By 1995, it had increased to 3.3% but in 1998 was down again to 1.8%. Economic activity slackened during the 1970s, with GDP growth at 2.3% a year, down from a rate of about 4.5% during 1960–70. Growth remained moderate during the 1980s averaging 2% a year. The GDP grew by 2.2% in 1990, but only at 1% in 1991, 1.2% in 1992, and 1.1% in 1993. In 1994, growth began to rebound, with GDP growing by 3.1%; in 1998 growth was 2.6%. Recessions in 1974–75 and 1980–81 spurred a substantial rise in unemployment. From a rate of 0.9% in 1973, unemployment reached 12.3% in 1993. By 1995, it had decreased to 10.2%, still quite high compared to the United States, but about the same as other EU countries. By 1998, however, it fell to an estimated 6.5%. Throughout the 1970s and through most of the next six years, Denmark's trade balance was in chronic deficit, but a surplus was registered in 1987 and continued through 1997. Denmark's vulnerability to the Asian and Russian financial crises in the late 1990s resulted in a balance of payments deficit.

Although Denmark easily met all of the criteria for membership in the European economic and monetary union (EMU), it opted to stay out of the euro zone. However, Danish leaders keep their options open and still have expressed interest in joining.

The Danish government in 2003 pledged to lower taxes, but the high cost of maintaining the welfare state made it difficult to implement those cuts. Government debt remains high, but the

public budget was in surplus in 2002. Unemployment in the early 2000s was among the lowest of the EU countries. Important service sectors are communications and information technologies, management consulting, and tourism. However shipping remains the most important service sector in Denmark. In 2001, GDP growth was only 0.9%, down from 3% in 2000, largely due to the global economic slowdown and poor domestic demand. Exports were expected to increase in 2002, and coupled with an increase in public consumption versus public savings, GDP growth was expected to rise to 2% in 2003 and 2.5% in 2004. Wages were expected to rise in 2003, and if the global economy expanded, labor shortages were forecast to reemerge.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Denmark's gross domestic product (GDP) was estimated at \$155.5 billion. The per capita GDP was estimated at \$29,000. The annual growth rate of GDP was estimated at 1.8%. The average inflation rate in 2002 was 2.3%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 3% of GDP, industry 26%, and services 71%.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$18,417. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. Approximately 16% of household consumption was spent on food, 11% on fuel, 3% on health care, and 17% on education. The richest 10% of the population accounted for approximately 20.5% of household consumption and the poorest 10% approximately 3.6%.

## 21 LABOR

In 1998, the labor force totaled 2.86 million. Of those employed in 2002, 79% were in service, 17% in industry, and 4% in agriculture. Unemployment stood at 5.1% in 2002. The 1982–90 period brought a 1.3% decline in agricultural employment, a slight decrease in employment in manufacturing, and a large increase in employment in services, especially government services (education, social welfare, etc.). With the aim of holding down unemployment, the government offers the option of early retirement, apprenticeship and trainee programs, and special job offerings for the long-term unemployed.

As of 2002, an estimated 80% of all wage-earners, mostly blue-collar workers and government employees, were organized in trade unions. These unions are independent of the government or political parties. Most unions are limited to particular trades. The largest affiliation is with the Confederation of Danish Labor (LO). Most workers are entitled to strike and that option is exercised often. Collective bargaining is practiced widely.

National labor agreements set a wage minimum, and a national minimum wage is legally mandated. In 2002, the lowest paid hourly wage came to \$10, which was sufficient to provide a decent standard of living for a family. The typical private sector workweek, as set by contract, was 37 hours in 2002, with a minimum of 11 hours between work days. The minimum age for full time work is 15 years. Health and safety standards are set by law.

## 22 AGRICULTURE

About 56% of the land in 1998 was cultivated, most of it for feed and root crops. In 2002, agriculture engaged 4% of the labor force. Although agriculture is of great significance to the Danish

economy, its relative importance declined from 19% of the GDP in 1961 to 2.7% in 2001.

The majority of farms are small and medium-sized; about 80% are smaller than 50 hectares (124 acres). In 1995, there were 66,150 Danish farms. Thousands of smallholdings have been established since 1899 under special legislation empowering the state to provide the land by partitioning public lands, by expropriation, and by breaking up large private estates. In the more newly established holdings, the farmer owns only the buildings (for which the state advances loans), the land being owned by the state and the smallholder paying an annual rent fixed under the land-tax assessment. Comparatively few new holdings have been established since 1951.

Grain growing and root-crop production are the traditional agricultural pursuits, but considerable progress has been made in recent decades in apple growing and the production of field, forage, flower, and industrial seeds. Although the soil is not particularly fertile and holdings are kept deliberately small, intensive mechanization and widespread use of fertilizers and concentrated feeds result in high yields and excellent quality. In 1998 there were 140,000 tractors and 25,000 harvester-threshers.

The crop yields of major crops for 1999 were (in estimated tons per hectares/acres harvested): barley, 715,000 per 1,767,000 ha/3,619,000 ac; wheat, 631,000 per 1,559,000 ha/4,444,000 ac; rye, 51,000 per 126,000 ha/237,000 ac; sugar from beets, 63,000 per 156,000 ha/3,567,000 ac; rapeseed (canola), 142,000 per 351,000 ha/383,000 ac; and carrots, 2,000 per 5,000 ha/77,000 ac.

Agricultural exports supplied 17.8% of the value of Danish exports in 2001. Farm products provide materials for industrial processing, and a significant share of industry supplies the needs of domestic agriculture.

The Danish government devotes particular effort to maintaining the volume, price, quality, and diversity of agricultural products, but internal regulation is largely left to private initiative or exercised through private organizations, notably the cooperatives.

## 23 ANIMAL HUSBANDRY

Denmark is generally regarded as the world's outstanding example of intensive animal husbandry. It maintains a uniformly high standard of operations, combining highly skilled labor, scientific experimentation and research, modern installations and machinery, and versatility in farm management and marketing. The excellent cooperative system guarantees the quality of every product of its members. Meat, dairy products, and eggs contribute a most important share of Danish exports. There is a close relationship between cost of feed and export prices.

The livestock population in 2001 included 1,906,000 head of cattle, 12,607,000 hogs, 152,000 sheep, 43,000 horses, and 20,347,000 chickens. Mink, fox, polecat, finnraccoon, and chinchilla are raised for their pelts.

The value of exported meat and animal products in 2001 amounted to \$10.4 billion, consisting primarily of live pigs and pork, cheese, and canned meat. Production in 2001 included 4,552,000 tons of milk, 46,600 tons of butter, and 317,700 tons of cheese. In addition, egg production was 80,700 tons in 1999. Some 50% of all eggs consumed domestically are produced by alternative methods, a phrase that generally refers to layers raised organically or in free-range. The government's goal is for all eggs to ultimately be produced by non-caged layers. Organic milk is also a growing market. Organically produced feed's share of the domestic market is also increasing.

## 24 FISHING

The country's long coastline, conveniently situated on rich fishing waters, provides Denmark with excellent fishing grounds. Fishing is an important source of domestic food supply, and both fresh and processed fish are important exports. During 1990–95, the government financially supported fleet reduction in order to alleviate structural problems in the industry, and 605 vessels left the fleet during those years. At the beginning of 1996, there were 4,995 Danish fishing vessels, with a combined 97,174 GRT. The catch is composed mainly of herring and sprat, cod, mackerel, plaice, salmon, and whiting; but sole and other flatfish, tuna, and other varieties are also caught. Both trout and eel are important. In 2000, total Danish landings were 1,534,089 tons.

Denmark is one of the world's leading seafood exporters. In 2001, fish exports were valued at \$2 billion, up 11% from 2000.

## 25 FORESTRY

A law of 1805 placing all forestland under reservation stated that "where there is now high forest there must always be high forest." Various measures were adopted to maintain forest growth. Later revisions of the law compelled all woodland owners to replant when trees are felled and to give adequate attention to drainage, weeding out of inferior species, and road maintenance. As a result, forests, which occupied only 5% of Denmark's land area and were actually in danger of extinction at the beginning of the 19th century, now make up 10% of the land and are in excellent condition. The total forest area in 2000 was 455,000 ha (1,124,000 acres). Spruce and beech are the most important varieties. The government would like to increase forest area to 800,000 ha (1,977,000 acres), nearly 20% of Denmark's total area, during the next 80 years.

Roundwood harvested in 2002 amounted to 1.8 million cu m (64 million cu ft), of which about two-thirds came from conifers and one-third came from broadleaf species. Denmark is a large importer of softwood lumber, especially from the other Scandinavian countries, and is a large particleboard consumer. Total Danish wood trade in 2001 amounted to \$1.7 billion, consisting of imports of \$1 billion and exports totaling \$688 million. Pine logs account for about 60% of the total value of imported wood, much of it used by the furniture industry. Danish furniture exports in 2002 amounted to more than \$1.9 billion.

On 3 December 1999, the first hurricane ever recorded in Denmark destroyed large tracts of its forested areas. Estimated loss of trees amounted to 150% of Denmark's normal annual timber harvest.

## 26 MINING

Denmark's industrialized market economy depended on imported raw materials, its mineral resources were mainly fossil fuels in the North Sea, and the nonfuel minerals industry included mining and quarrying of chalk, clays, diatomite, limestone (agricultural and industrial), and sand and gravel (onshore and offshore). The industrial minerals sector was particularly active. There were some 90 pits in Denmark from which clay was mined; this material was used primarily by the cement, brickmaking, and ceramic tile industries. The production of sand, gravel, and crushed stone has become more important in recent years, not only in meeting domestic demand, but also as an export to Germany and other Scandinavian countries. Kaolin, found on the island of Bornholm, was used mostly for coarse earthenware, furnace linings, and as filler for paper; production was 2,000 tons in 2001, down from 3,000 in 1997. There were important limestone, chalk, and marl deposits in Jutland. Chalk production totaled 410,000 tons in 2001. Limonite (bog ore) was extracted for gas purification and pig iron production. Large deposits of salt were discovered in Jutland in 1966; in 2001, 605,000 tons were mined. The country also produced fire clay, extracted moler,

lime (hydrated and quicklime), nitrogen, peat, crude phosphates, dimension stone (mostly granite), and sulfur. According to the constitution, subsurface resources belonged to the nation, and concessions to exploit them required parliamentary approval.

## 27 ENERGY AND POWER

Denmark has virtually no waterpower, and no nuclear power plants. In the 1990s, the government launched a major initiative aimed at developing wind power generating capacity. By 2000, 83.9% of all electric power came from fossil fuels, less than 1% from hydropower, and the remainder from other sources, mostly windpower production. Some domestic lignite and peat are used, and diesel power is employed in some small energy-generating plants, but the main sources of energy are imported coal and fuel oil, with the use of wind generation increasing. Municipal plants predominate in the cities and towns, and cooperative-owned plants are prominent in rural districts. In 2000, 34.1 billion kWh of electricity was generated; total installed capacity in 2001 was 12,654 MW. Consumption was 33.9 billion in 2000.

Between 1990 and 1995, Denmark's primary energy consumption rose by nearly 19%. As a result of the slow rate of progress in developing Denmark's North Sea gas and oil resources—exploratory drilling had been conducted in fewer than 25% of the fields by the end of 1980—the Danish government in 1981 decided to nationalize most of the fields. The Gorm oil and gas field, with estimated oil reserves of 100 million tons, went into production in mid-1982, and indications of additional hydrocarbon deposits were found nearby during 1983. By 1990, the Gorm Field's cumulative output was 12.7 million tons. Production of oil in 2000 totaled 367,000 barrels per day; proven reserves were estimated at 1.11 billion barrels at the beginning of 2002.

## 28 INDUSTRY

Manufacturing has greatly expanded since the end of World War II and now accounts for a far greater share of national income than does agriculture. In 2002, manufacturing (including mining and utilities) accounted for 26% of the GDP, employing 17% of the total working population. In the important food and drink industry, which tends to be relatively stable, the pattern differs for various branches, but meat packing has developed remarkably. The chemical, metalworking, and pharmaceutical industries have made notable progress. Handicrafts remain important, and Danish stone, clay, glass, wood, and silver products are world famous. The industrial share of total commodity exports increased from 31% in 1951 to 50% in 1969, and to 70% in 1992. In the world market, Danish manufacturers, having a limited supply of domestic raw materials, a relatively small home market, and a naturally advantageous geographic position, have concentrated on the production of high-quality specialized items rather than those dependent on mass production. For example, Denmark became the world's largest supplier of insulin, the raw materials for which come from livestock intestines, and, because of a social law creating a large domestic market, Denmark came to produce 20% of the world's hearing-aid spectacles.

Machinery, by far the most important industrial export, includes cement-making machinery, dairy machinery, diesel engines, electric motors, machine tools, and refrigeration equipment. Other important exports are canned foods, chemicals and pharmaceuticals, furniture, metal and paper products, ships, and textiles.

## 29 SCIENCE AND TECHNOLOGY

The Ministry of Research is the central administrative unit for research policy. Among advisory bodies to it are the Danish Council for Research Policy, the Danish Natural Science Research Council, the Danish Medical Research Council, the Danish Agricultural and Veterinary Research Council, the Danish

Technical Research Council, and the Danish Committee for Scientific and Technical Information and Documentation. The chief learned societies are the Royal Danish Academy of Science and Letters (founded in 1742) and the Danish Academy of Technical Sciences (founded in 1937). Denmark also has 29 specialized learned societies in the fields of agricultural and veterinary science, medicine, natural sciences, and technology. Among the principal public research institutions are the universities Aalborg, Aarhus, Copenhagen, Odense, and Roskilde; the Royal Veterinary and Agricultural University at Frederiksberg; the Technological University of Denmark near Copenhagen; the National Hospital in Copenhagen; the Risø National Laboratory near Roskilde; the Danish Institute for Fisheries and Marine Research at Charlottenlund; and the Danish Meteorological Institute at Copenhagen. In 1987-97, science and engineering students accounted for 25% of university enrollment. Many of the world's preeminent theoretical nuclear physicists have worked at the Niels Bohr Institute for Astronomy, Physics, and Geophysics of Copenhagen University. Copenhagen has museums of geology and zoology and botanical gardens.

Research and development expenditures in 1987-97 totaled 1.9% of GNP; 2,644 technicians and 3,259 scientists and engineers per million people were engaged in research and development. Government grants supply almost half of all funding for research activities. In 1998, high-tech exports were valued at \$5.5 billion and accounted for 18% of manufactured exports.

### 30 DOMESTIC TRADE

In 1995, 17.3% of the Danish workforce was employed in wholesale, retail, hotels, and restaurants. Large units are becoming more common in wholesale as well as retail trade, ordering directly from local manufacturers and foreign suppliers. Retail operations now include purchasing organizations, various types of chains, cooperatives, self-service stores, supermarkets, and department stores. Chain stores are gaining dominance in the non-food retail goods market. The food retail sector is primarily controlled by two main Danish supermarket chains, though there are about 30 other independent food import establishments. A 25% value-added tax applies to most goods and services.

Danish retail trade is marked by keen competition between independent retailers, manufacturers' chains, and consumer cooperatives. About 30% of all Danish retail establishments are in the greater Copenhagen area, and these account for almost 40% of all retail sales.

Business opening hours vary between 8 and 9 AM; closing is between 5:30 and 7 PM for stores and 4 to 4:30 PM for offices. Early closing (1 PM) on Saturdays is now standard. Banking hours are from 9:30 AM to 4 PM, Monday through Friday; also, 4 to 6 PM on Thursday.

General, trade, and technical periodicals are important media, and direct-mail and film advertising are used extensively. Radio and television commercials are prohibited. The most important trade exhibition, the International Fair, takes place every spring in Copenhagen.

### 31 FOREIGN TRADE

The Danish economy depends heavily on foreign trade. Raw materials for use in production used to account for more than half the value of imports, but have seen a considerable decline in recent years. Farm products traditionally comprised the bulk of total Danish exports, but since 1961, industrial exports have exceeded agricultural exports in value. In 2000, industrial products accounted for 88.8% of Denmark's total commodity exports by value; agricultural and fishing exports accounted for 6.2%.

To curb domestic demand, the government introduced several fiscal restraint measures in 1986, resulting in a decline in imports. Such measures and a tight-money policy have curbed inflation and made Danish exports more competitive, leading to a trade surplus in every year from 1987 to 2000. In 2000, total exports were \$49.2 billion and imports were \$44.6 billion.

A great producer of food, Denmark's commodity exports include meat (6.8%), fresh fish (1.8%), and cheese (1.7%), each of which command a substantial percentage of the world's food exports in their categories (6.9%, 4.4%, and 8.7% respectively). The country also exports fine furniture (4.0%) and medicaments (4.3%).

In 2000 Denmark's imports were distributed among the following categories:

Consumer goods	19.1%
Food	9.5%
Fuels	5.8%
Industrial supplies	26.9%
Machinery	25.5%
Transportation	10.1%
Other	3.1%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	8,271	9,154	-54
Sweden	6,147	5,382	-534
United Kingdom	4,432	4,049	1,240
Norway	2,676	2,235	703
France	2,140	2,286	-181
United States	2,597	1,791	21
Netherlands	2,343	3,326	-1,097
Finland	1,612	1,163	256
Japan	1,611	665	-681
Italy	1,479	1,879	-190

### 32 BALANCE OF PAYMENTS

The decline in Denmark's trade balance since the end of World War II resulted in a serious deterioration in the balance-of-payments position, particularly since 1960. In the late 1960s, the course of Denmark's international economic activity paralleled trends in continental Europe, with high trade and capital flow levels being accompanied by a deteriorating current-account position; this condition continued into the early 1970s. The Danish government had hoped that Denmark's entry into the EC would reduce the country's persistent deficit and bring the balance on current account into a more favorable position, but this was not the case in the late 1970s. Although current account deficits were reduced somewhat in 1980-81, thanks to the devaluation of the kroner and the restrictive income and fiscal policies implemented in 1979-80, the deficit again increased in 1982 and by 1985 was at the highest level since 1979. In 1990, after a century of deficits, the balance of payments showed a surplus of \$1.3 billion, and peaked at \$4.7 billion in 1993. In 1994 the surplus dropped to \$2.7 billion, but by 2002 it stood at \$8.4 billion. The surplus has allowed Denmark to begin repaying its large foreign debt, which peaked in 1988 at \$44 billion, or 40% of GDP. (External debt stood at \$21.7 billion in 2000.) Net interest payments on debt continue to be a burden, accounting for about 10% of goods and services export earnings.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Denmark's exports was \$56.3 billion while imports totaled \$47.9 billion resulting in a trade surplus of \$8.4 billion.

The International Monetary Fund (IMF) reports that in 2001 Denmark had exports of goods totaling \$50.9 billion and imports

totaling \$44 billion. The services credit totaled \$26.9 billion and debit \$23.5 billion. The following table summarizes Denmark's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>4,142</b>
Balance on goods	6,960
Balance on services	3,407
Balance on income	-3,598
Current transfers	-2,627
<b>Capital Account</b>	<b>-25</b>
<b>Financial Account</b>	<b>-3,837</b>
Direct investment abroad	-9,631
Direct investment in Denmark	7,238
Portfolio investment assets	-14,355
Portfolio investment liabilities	11,033
Other investment assets	10,045
Other investment liabilities	-8,690
<b>Net Errors and Omissions</b>	<b>2,990</b>
<b>Reserves and Related Items</b>	<b>-3,270</b>

### 33 BANKING AND SECURITIES

By an act of 7 April 1936, the Danish National Bank, the bank of issue since 1818, was converted from an independent to an official government corporation. Its head office is in Copenhagen, and it has branches in provincial towns. The Nationalbank performs all the usual functions of a central bank, and it holds almost all the nation's foreign exchange reserves. Commercial banks provide short-term money to business and individuals, almost always in the form of overdraft credits, which are generally renewable.

Danish banks, hit particularly hard by the Nordic banking crisis of 1991-93, have rebounded. By the end of the decade, they had rebounded completely. Their recovery was bolstered in large part by continuing capital gains in securities markets. In mid-2003, there were 187 commercial and savings banks, eight mortgage credit institutions, 30 investment companies, 138 non-life insurance companies, and 94 life assurance companies and multi-employer pension funds.

Credit and mortgage societies are active in Denmark. In 1982, index-linked real estate loans were introduced, initially carrying nominal interest rates of 2.5% per year, with balance and installments adjusted yearly according to variations in the consumer price index and wage indexes. In the mid-1990s, the lending rate was about 12%. The International Monetary Fund reports that in 1999, currency and demand deposits—an aggregate commonly known as M1—were equal to \$54.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$97.5 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 3.37%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 3%.

The stock exchange (or Bourse) in Copenhagen was built during 1619-30 by Christian IV. He subsequently sold it to a Copenhagen merchant, but it reverted to the crown and in 1857 was finally sold by Frederik VII to the Merchants' Guild. Although it is the oldest building in the world built as an exchange and still used as one, the nature of the business transacted in it has greatly changed. Originally a commodity exchange equipped with booths and storage rooms, the Bourse is now almost exclusively a stock exchange. In 1970, the Stock Exchange was placed under the jurisdiction of the Ministry of Commerce with a governing committee of 11 members. Only a few bond issues are made by manufacturing firms each year. In 1980, Denmark took the initial step toward becoming the first country to convert the issuing of stock, share, and bond certificates into a computer account registration system.

### 34 INSURANCE

The Danish insurance industry is regulated by the Danish Supervisory Authority of Financial Affairs. Danish companies do most stock insurance business. Some government-owned insurance companies sell automobile, fire, and life insurance and handle the government's war-risk insurance program. In Denmark, third-party auto insurance, workers' compensation, nuclear power station insurance, hunter's liability, dog liability, third-party aircraft liability and mortgaged property insurance are compulsory. The two primary pieces of legislation affecting the insurance industry are the Insurance Companies Act and the Insurance Contracts Act. The first contains regulations for establishing and operating insurance companies and describes the public supervision of the insurance business. The second governs relations between insurance companies, policy holders, and claimants.

### 35 PUBLIC FINANCE

The finance bill is presented to the Folketing yearly; the fiscal year follows the calendar year. As a general rule, the budget is prepared on the "net" principle, the difference between receipts and expenditures—surplus or deficit—of public undertakings being posted to the revenue accounts. By far the largest amounts of public expenditure are for social security, health, education and research, unemployment insurance, pensions, allowances, and rent subsidies.

Under a new tax reform plan, agreed upon by the government and the Danish People's Party in March 2003, Danish citizens will receive tax relief in 2004, although at a lesser rate than originally was hoped. Denmark has yet to accept the euro as its currency, although it meets all the criteria set forth by the European Monetary Union to do so. The 1993 Finance Act serves as an example of how revenue is only to a limited degree spent on the public sector's own operational and initial expenditure, but mainly repaid to citizens. Out of the Kr340 billion the government had at its disposal in 1993, 46% was to be sent back to individual citizens as income transfers. In addition, the government transferred 12% of the budget to municipalities in the form of block grants, which also will largely end up as transfer payments to individuals.

The US Central Intelligence Agency (CIA) estimates that in 2001 Denmark's central government took in revenues of approximately \$52.9 billion and had expenditures of \$51.3 billion including capital expenditures of \$500 million. Overall, the government registered a surplus of approximately \$1.6 billion. External debt totaled \$21.7 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>52,900</b>
Tax revenue	86.8%	45,893
Non-tax revenue	11.7%	6,165
Capital revenue	0.4%	230
Grants	1.2%	611
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>51,300</b>
General public services	8.4%	4,323
Defense	4.1%	2,086
Public order and safety	2.1%	1,077
Education	12.7%	6,512
Health	0.7%	367
Social security	40.9%	20,982
Housing and community amenities	1.9%	958
Recreation, cultural, and religious affairs	2.1%	1,055
Economic affairs and services	7.5%	3,837
Other expenditures	8.5%	4,365
Interest payments	11.2%	5,738

### 36 TAXATION

Denmark's taxes are among the highest in the world. Danish residents are liable for tax on global income and net wealth. Nonresidents are liable only for tax on certain types of income from Danish sources. In 1999, the total collected taxes amounted to 51% of the GDP.

The corporate income tax in Denmark is 30%, which must be prepaid during the income tax year to avoid a surcharge.

Personal income tax is collected at state, county and local levels. A tax ceiling ensures that combined income taxes do not exceed 59% of income. Income tax rates are progressive: 39% on income up to €22,118; 45% on income between €22,118 and €36,025; and 60% on income above €36,025. Several kinds of deductions or reductions can be applied to taxable income. There is also a voluntary church tax with an average rate of 0.8%. The social security contribution from employee earnings is 9%, 8% for unemployment insurance and 1% for special pension scheme savings. The voluntary church tax and social security contributions do not count toward the 59% tax ceiling. Tax is withheld at the source. Foreign researchers and key employers may qualify for a gross tax of 25% on their salary instead of paying regular income tax. They are still liable for 9% social security contributions.

Denmark's main indirect tax in the value-added tax (VAT) first introduced in March 1967 with a standard rate of 10%. The current standard rate of 25% was introduced in January 1992. Daily newspapers and a few other goods and services are exempt for the VAT.

### 37 CUSTOMS AND DUTIES

Denmark—a consistent advocate of free and fair conditions of international trade—had until recently the lowest tariff rate in Europe. However, owing to shortages of foreign currency, Denmark did impose quantitative restrictions on imports, and as late as 1959 about 64% of Danish industrial production was so protected. On joining the European Free Trade Association (EFTA) on 8 May 1960, Denmark began eliminating tariff rates and quantitative restrictions on industrial products from other EFTA countries. By 1 January 1970, those that remained were abolished. On 1 January 1973, Denmark ended its membership in EFTA and became a member of the European Community, which not only represents a free trade area but also seeks to integrate the economies of its member states.

Denmark adheres to provisions of GATT on import licensing requirements although certain industrial products must meet Danish and EC technical standards. Denmark converted to the Harmonized System of import duties on 1 January 1988. Most products from European countries are duty-free. Duty rates for manufactured goods range from 5–14% of CIF value, and a 25% VAT is applied to imported, as well as domestic, products. Agricultural products are governed by the Common Agricultural Policy (CAP), a system of variable levies, instead of duties.

### 38 FOREIGN INVESTMENT

Foreign investors are treated on an equal footing with Danish investors; investment capital and profits may be freely repatriated. Since the late 1950s, Denmark has attracted a moderate amount of foreign investment. In 1998, however, annual FDI inflows jumped from \$2.8 billion to \$7.7 billion then soared to \$32.3 billion in 2000. In terms of success in attracting FDI, Denmark went from the 62nd ranked country (out of 140 countries studied) on UNCTAD's Inward FDI Performance Index for the period 1988 to 1990 to the 12th ranked country for the period 1998–2000. Denmark's ranking in terms of potential for inward FDI increased from 10th place in the world to 8th place. In the economic slowdown of 2001 and in decline in FDI flows that followed the 11 September 2001 terrorist attacks in the

United States, annual FDI flow fell to about \$14 billion in 2001 and to an estimated \$7.7 billion in 2002. Inward FDI stock at the end of 2001 was an estimated \$85 billion; outward FDI was an estimated \$92 billion.

The main sources of inward FDI in Denmark in 2001 were the United States (30%), Sweden (14%), and Belgium-Luxembourg (13%). The main destinations of Danish outward FDI in 2001 were Belgium-Luxembourg (19%), the United States (17%), and Switzerland (7%).

### 39 ECONOMIC DEVELOPMENT

For many years, Danish governments followed a full-employment policy and relied chiefly on promotion of private enterprise to achieve this end. Beginning in the late 1970s, however, the government increased its intervention in the economy, in response to rising unemployment, inflation, and budget deficits. Inflation has been curbed and budget deficits reduced. This bolstered the currency from devaluation, but at the cost of restraining growth, and unemployment continued to rise.

Government influence on private enterprise through the exercise of import and export licensing has diminished in recent years. The discount policy of the National Bank is of major importance to the business community. Control of cartels and monopolies is flexible. The government has a monopoly or majority interest in railways, domestic air traffic, airports, and communications. Most of the country's power stations are owned and operated by local governments and municipalities.

Capital incentives are available to assist new industries, mainly in the less-developed areas of Denmark. Municipalities also provide infrastructure, industrial parks, or inexpensive land. Under a 1967 provision, the Regional Development Committee (composed of representatives of a number of special-interest organizations and central and local authorities) can grant state guarantees or state loans for the establishment of enterprises in less developed districts.

In 1978, Denmark reached the UN target for official developmental assistance in the mid-1970s: 0.7% of GNP. It reached 0.96% of GNP in 1991, second only to Norway. Denmark's official assistance to developing countries amounted to \$1.35 million per year in the mid-1990s.

Unemployment was at a 25-year low in 2002, and the economy was weathering the global economic recession fairly well; the gross domestic product (GDP) growth rate was 1.6%. The 2002 budget surplus was projected to remain between 1.5–2.5% of GDP. The government ran fiscal surpluses in order to prepare for the costs of an aging population. Nevertheless, state spending to total economic activity remains one of the highest in the world. Government purchases of goods and services accounted for 24.7% of GDP in 2000. Small and medium-sized businesses characterize the private sector, with companies with less than 50 employees accounting for approximately half of total employment, and only 12% of the workforce work in firms with more than 500 employees. Women are highly represented in the labor force.

### 40 SOCIAL DEVELOPMENT

Denmark was one of the first countries in the world to establish efficient social services with the introduction of relief for the sick, unemployed, and aged. Social welfare programs include health insurance, health and hospital services, insurance for occupational injuries, unemployment insurance and employment exchange services, old age and disability pensions, rehabilitation and nursing homes, family welfare subsidies, general public welfare, and payments for military accidents. Maternity benefits are payable up to 52 weeks.

According to the constitution, any incapacitated person living in Denmark has a right to public relief. Benefits such as maintenance allowances for the children of single supporters, day



care, and others, involve neither repayment nor any other conditions; some others are regarded as loans to be repaid when possible. Family allowances are paid to families with incomes below a certain threshold; rent subsidies require a means test. Denmark has a dual system of universal medical benefits for all residents and cash sickness benefits for employees. All Danish citizens over 67 years of age may draw old age pensions. Disability pensions, equal in amount to old age pensions plus special supplements, are paid to persons with a stipulated degree of disablement.

Women make up roughly half of the work force. Laws guarantee equal pay for equal work, and women have and use legal recourse if they feel discriminated against. There are crisis centers that counsel and shelter victims of domestic violence. Children's rights are well protected.

The Constitution provides for freedom of the press and speech, assembly and association, and for religious freedom, and generally respects these rights. Discrimination based on sex, creed, race, or ethnicity is prohibited.

#### 41 HEALTH

Denmark's health care system has retained the same basic structure since the early 1970s. The administration of hospitals and personnel is dealt with by the Ministry of the Interior, while primary care facilities, health insurance, and community care are the responsibility of the Ministry of Social Affairs. Anyone can go to a physician for no fee and the public health system entitles each Dane to his/her own doctor. Expert medical/surgical aid is available, with a qualified nursing staff. Costs are borne by public authorities, but high taxes contribute to these costs. As of 1999, there were an estimated 3.4 physicians and 4.5 hospital beds per 1,000 people. The number of hospital beds, like that in other EU countries, has undergone a major decline since 1980, from around 40,000 to about 23,000 in 1998/99. Deinstitutionalization of psychiatric patients has contributed significantly to this trend. The ratio of doctors to population, by contrast, has increased during this period.

The total fertility rate in 2000 was 1.7, while the maternal mortality rate was 10 per 100,000 live births as of 1998. Studies show that between 1980 and 1993, 63% of married women (ages 15 to 49) used contraception. As of 2002 cardiovascular diseases and cancer were the leading causes of death. Denmark's cancer rates were the highest in the European Union. In 1999, there were only 12 reported cases of tuberculosis per 100,000 people. As of 1999, the number of people living with HIV/AIDS was estimated at 4,300 and deaths from AIDS that year were estimated at less than 100. HIV prevalence was 0.17 per 100 adults.

Danish citizens may choose between two systems of primary health care: medical care provided free of charge by a doctor whom the individual chooses for a year and by those specialists to whom the doctor refers the patient; or complete freedom of choice of any physician or specialist at any time, with state reimbursement of about two-thirds of the cost for medical bills paid directly by the patient. Most Danes opt for the former. All patients receive subsidies on pharmaceuticals and vital drugs; everyone must pay a share of dental bills. As of 1999, total health care expenditure was estimated at 8.4% of GDP.

Responsibility for the public hospital service rests with county authorities. Counties form public hospital regions, each of which is allotted one or two larger hospitals with specialists and two to four smaller hospitals where medical treatment is practically free. State-appointed medical health officers, responsible to the National Board of Health, are employed to advise local governments on health matters. Public health authorities have waged large-scale campaigns against tuberculosis, venereal diseases, diphtheria, and poliomyelitis. The free guidance and assistance given to mothers of newborn children by public health nurses have resulted in a low infant mortality rate of 4 per 1,000

live births (2000). Medical treatment is free up to school age, when free school medical inspections begin. As of 1999, children up to one year of age were vaccinated against diphtheria, pertussis, and tetanus (99%) and measles (92%). In 2000, life expectancy at birth was 76 years for males and females. The overall death rate was 11 per 1,000 people in 1999.

#### 42 HOUSING

In recent decades, especially since the passage of the Housing Subsidy Act of 1956, considerable government support has been given to housing. For large families building their own homes, government loans have been provided on exceptionally favorable terms, and special rent rebates have been granted to large families occupying apartments in buildings erected by social building societies or in buildings built with government loans since 1950. Subject to certain conditions, housing rebates have been granted to pensioners and invalids. An annual grant is made to reduce householders' maintenance expenses. This extensive support helped to reduce the wartime and immediate postwar housing shortage.

In 1998, there were 2,460,608 dwellings. About 41% were detached, single-family homes; another 29% were detached, multi-family homes. Nearly 51% of all dwellings were owner occupied. About 16,929 new dwellings were built in 1997, mostly by private builders. In the third quarter of 2002, there were about 4,326 new dwellings under construction.

#### 43 EDUCATION

Virtually the entire Danish adult population is literate. Primary, secondary, and, on the whole, university and other higher education are free. Preschools are operated by private persons or organizations with some government financial aid. An estimated 13.1% of the central government budget was allocated to education in the latter half of the 1990s. As of 1999, public expenditure on education was estimated at 8.2% of GDP.

Education has been compulsory since 1814; currently, it is compulsory for children ages 7 to 16. The Danish primary school system, known as the "Folkes Kole," has a nine-year duration and many opt for an additional tenth year. English is included in the curriculum from the fifth grade. After basic schooling, two-thirds of the pupils apply for practical training in a trade or commerce at special schools. The remaining one-third go to secondary schools, which finish after three years with student examination and pave the way for higher education at universities. Municipal authorities, with some financial aid from the central government, have been responsible for providing schools for these children. In 1996, primary schools enrolled 336,690 students. In the same year, secondary schools had 438,809 students registered. Girls and women comprise almost 50% of those receiving education at all levels. The pupil-teacher ratio at the primary level was 10 to 1 in 1999. In the same year, 99% of primary-school-age children were enrolled in school, while 90% of those eligible attended secondary school.

Adult education exists side by side with the regular school system. Founded as early as 1844, the folk high schools are voluntary, self-governing high schools imparting general adult education. In addition, there are hundreds of schools for higher instruction of pupils without previous special training.

There are four universities—the University of Copenhagen (founded in 1479), the University of Aarhus (founded as a college in 1928 and established as a university in 1933), the University of Odense (opened in 1966), and the University Center at Roskilde (founded in 1970). Attached to the various faculties are institutes, laboratories, and clinics devoted primarily to research, but also offering advanced instruction. Many specialized schools and academies of university rank provide instruction in various technical and artistic fields. All these institutions are independent

in their internal administration. In 1996, all institutions of higher education had a combined enrollment of 174,975 students.

#### 44 LIBRARIES AND MUSEUMS

Denmark's national library, the Royal Library in Copenhagen, founded by Frederik III in 1653, is the largest in Scandinavia, with 4.6 million volumes. Three other large libraries are the University Library in Copenhagen, Copenhagen Public Libraries and the State Library at Aarhus. As of 2002, there were 250 free public libraries throughout the country with 892 points of service. That year, the public libraries had a total of more than 31.4 million volumes.

Among the largest museums are the National Museum (with rare ethnologic and archaeological collections), the Glyptotek (with a large collection of ancient and modern sculpture), the State Art Museum (containing the main collection of Danish paintings as well as other Scandinavian artists), the Thorvaldsen Museum, the Hirshsprung Collection, and the Rosenborg Palace, all in Copenhagen, and the National Historical Museum in Frederiksborg Castle, at Hillerod. Among the newer facilities is the Amalienborg Museum in Copenhagen, which opened in 1994 and houses treasures of the royal family. The largest art museum in Denmark is set to open in 2004 in Aarhus.

#### 45 MEDIA

Although the government telephone service owns and operates long-distance lines and gives some local service, the bulk of local telephone service is operated by private companies under government concession with government participation. Continuous efforts are being made to expand and modernize the system. As of 1997 there were over 4.7 million main line telephones in Denmark proper, or approximately 720 lines per 1,000 inhabitants. Mobile cellular phones numbered over 1.4 million. Telegraph services are owned and operated by the government. The radio broadcasting services are operated by the Danish State Radio System, on long, medium, and short waves. Television broadcasting hours are mainly devoted to current and cultural affairs and to programs for children and young people. There is no commercial advertising on radio or television; owners of sets pay an annual license fee. As of 1998 there were 2 AM and 355 FM radio stations and 26 television stations. In 2000, Denmark had 1,349 radios and 807 television sets per 1,000 population. About 264 of every 1,000 people subscribed to cable television. Also in 2000, there were 431 personal computers per 1,000 people and 13 Internet service providers, serving about 2.93 million users in 2001.

The following table lists 2002 average daily circulation figures for the largest newspapers:

	ORIENTATION	CIRCULATION
COPENHAGEN		
<i>Ekstra Bladet</i>	Independent/Social-liberal	159,500
<i>Politiken</i>	Independent/Social-liberal	153,500
<i>Berlingske Tidende</i>	Independent/Conservative	160,100
<i>B.T.</i>	Independent/Conservative	144,900
PROVINCES		
<i>Aarhus Stiftstidende</i> (Aarhus)	Independent	176,400
<i>Vendsyssel Tidende</i> (Hjørring)	Independent	114,000
<i>Aalborg Stiftstidende</i> (Aalborg)	Independent	72,700
<i>Fyens Stiftstidende</i> (Odense)	Independent	66,400

Complete freedom of expression, including that in print and electronic media, is guaranteed under the constitution. The media in Denmark are largely independently-operated and are free from government interference.

#### 46 ORGANIZATIONS

Nearly every Danish farmer is a member of at least one agricultural organization and of one or more producer

cooperatives. The oldest agricultural organization, the Royal Agricultural Society of Denmark, was established in 1769, but most of the other organizations have been founded since 1850. They promote agricultural education and technical and economic development. Local societies have formed provincial federations, which in turn have combined into two national organizations, the Federation of Danish Agricultural Societies and the Federation of Danish Smallholders Societies. The Cooperative Movement of Denmark comprises three groups: agricultural cooperatives, retail cooperatives, and urban cooperatives. Owners of estates and large farms belong to separate organizations specializing in the affairs of larger agricultural units.

The first producer cooperatives were formed in the 1880s at a time when Danish farming changed its emphasis from cultivation to animal husbandry. Since then, the voluntary cooperation among the farmers of Denmark has been without parallel. There is almost nothing that Danish farmers buy, sell, or export that is not handled through cooperatives. Most consumers' cooperative societies belong to the Danish Cooperative Wholesale Society, which makes bulk purchases for member societies and also manufactures various products.

The Federation of Danish Industries and the Industrialists' Association in Copenhagen represent industrial undertakings and trade associations, safeguard and promote the interests of industry, and deal with trade questions of an economic nature. The Danish Confederation of Trade Unions has also been influential. The Council of Handicrafts represents various crafts, trades, and industries, and gives subsidies to technical and trade schools. The leading organizations of the wholesale trade are the Copenhagen Chamber of Commerce, and the Provincial Chamber of Commerce. There are also active professional societies representing a broad range of career fields.

A wide variety of organizations exist to promote research and education in medical and scientific fields, such as Danish Academy of Technical Sciences. A number of national and regional cultural organizations are active, as are associations representing popular sports and recreational activities. Youth organizations include the Conservative Youth of Denmark, Danish 4-H Youth, Danish Socialist Democratic, Faroe Islands Youth Council, Greenland Youth Council (SORLAK), scouting programs, and YMCA/YWCA. Denmark has active chapters of The Red Cross, Greenpeace, and Amnesty International.

#### 47 TOURISM, TRAVEL, AND RECREATION

Dozens of castles, palaces, mansions, and manor houses, including the castle at Elsinore (Helsingør)—site of Shakespeare's *Hamlet*—are open to the public. Tivoli Gardens, the world-famous amusement park, built in 1843 in the center of Copenhagen, is open from May through mid-September. Copenhagen is an important jazz center and holds a jazz festival in July. The Royal Danish Ballet, of international reputation, performs in Copenhagen's Royal Theater, which also presents opera and drama. Greenland, the world's largest island, is part of the Kingdom of Denmark and attracts tourists to its mountains, dog sledges, and midnight sun.

No passport is required for Scandinavian nationals. Citizens of Canada, the US, and South and Central American countries, as well as those of most Commonwealth nations, most West European countries, and certain other nations may enter Denmark without a visa. All others must have a valid passport with entry and exit or transit visa. Most travelers cannot remain in Denmark longer than three months without extension or possession of a residence permit.

In 2000 Denmark received about 2,088,000 visitors. That year there were 39,459 hotel rooms with 102,110 beds and a 37% occupancy rate. Receipts totaled \$4 billion.

In 2002 the US government estimated the cost of staying in Denmark at about \$195 to \$210 per day.

## 48 FAMOUS DANES

Denmark's greatest classic writer and the founder of Danish literature is Ludvig Holberg (1684–1754), historian, philologist, philosopher, critic, and playwright, whose brilliant satiric comedies are internationally famous. Another important dramatist and poet is Adam Gottlob Oehlenschläger (1779–1850). The two most celebrated 19th-century Danish writers are Hans Christian Andersen (1805–75), whose fairy tales are read and loved all over the world, and the influential philosopher and religious thinker Søren Kierkegaard (1813–55). Nikolaj Frederik Severin Grundtvig (1783–1872), noted theologian and poet, was renowned for his founding of folk high schools, which brought practical education to the countryside. The leading European literary critic of his time was Georg Morris Brandes (Cohen, 1842–1927), whose *Main Currents in 19th-Century European Literature* exerted an influence on two generations of readers. Leading novelists include Jens Peter Jacobsen (1847–85); Martin Anderson Nexø (1869–1954), author of *Pelle the Conqueror* (1906–10) and *Ditte* (1917–21); and Johannes Vilhelm Jensen (1873–1950), who was awarded the Nobel Prize for literature in 1944 for his series of novels. Karl Adolph Gjellerup (1857–1919) and Henrik Pontoppidan (1857–1943) shared the Nobel Prize for literature in 1917. Isak Dinesen (Karen Blixen, 1885–1962) achieved renown for her volumes of gothic tales and narratives of life in Africa. Jeppe Aakjaer (1866–1930), poet and novelist, is called the Danish Robert Burns. A great film artist is Carl Dreyer (1889–1968), known for directing *The Passion of Joan of Arc*, *Day of Wrath*, and *Ordet*. Famous Danish musicians include the composers Niels Gade (1817–90) and Carl Nielsen (1865–1931), the tenors Lauritz Melchior (1890–1973) and Aksel Schiøtz (1906–75), and the soprano Povla Frijsh (d.1960). Notable dancers and choreographers include August Bournonville (1805–79), originator of the Danish ballet style; Erik Bruhn (1928–86), who was known for his classical technique and was director of ballet at the Royal Swedish Opera House and of the National Ballet of Canada; and Fleming Ole Flindt (b.1936), who has directed the Royal Danish Ballet since 1965. The sculptor Bertel Thorvaldsen (1770–1844) is the artist of widest influence.

Notable scientists include the astronomers Tycho Brahe (1546–1601) and Ole Rømer (1644–1710); the philologists Ramus Christian Rask (1787–1832) and Otto Jespersen (1860–1943); the physicist Hans Christian Ørsted (1777–1851), discoverer of electromagnetism; Nobel Prize winners for physics Niels Bohr (1885–1962) in 1922 and his son Aage Niels Bohr (b.1922) and Benjamin Mottelson (b.1926) in 1975; Niels Rybert Finsen (b.Faroe Islands, 1860–1904), August Krogh (1874–1949), Johannes A. G. Fibiger (1867–1928), and Henrik C. P. Dam (1895–1976), Nobel Prize-winning physicians and physiologists in 1903, 1920, 1926, and 1944, respectively. Frederik Bajer (1837–1922) was awarded the Nobel Prize for peace in 1908. Knud Johan Victor Rasmussen (1879–1933), explorer and anthropologist born in Greenland, was an authority on Eskimo ethnology.

Queen Margrethe II (b.1940) became sovereign in 1972.

## 49 DEPENDENCIES

### Faroe Islands

The Faroe Islands (Faerøerne in Danish and Føroyar in the Faroese language), whose name stems from the Scandinavian word for sheep (får), are situated in the Atlantic Ocean, due N of Scotland, between 61°20' and 62°24' N and 6°15' and 7°41' W. The 18 islands, 17 of which are inhabited, cover an area of 1,399 sq km (540 sq mi). Among the larger islands are Streymoy (Strømmø) with an area of 373 sq km (144 sq mi), Eysturoy (Østerø) with 286 sq km (110 sq mi), Vágar (Vaagø) with 178 sq km (69 sq mi), Suduroy (Syderø) with 166 sq km (64 sq mi), and

Sandoy (Sandø) with 112 sq km (43 sq mi). The maximum length of the Faroe Islands is 112 km (70 mi) N–S and the maximum width is 79 km (49 mi) NE–SW. The total coastline measures 1,117 km (694 mi).

The estimated population in July 2002 was 46,011. Most Faroese are descended from the Vikings, who settled on the islands in the 9th century. The Faroes have been connected politically with Denmark since the 14th century. During World War II (1939–45), they were occupied by the British, and in this period important political differences emerged. The Faroese People's party advocated independence for the islands; the Unionists preferred to maintain the status quo; and the Faroese Social Democrats wanted home rule. After the war, it was agreed to establish home rule under Danish sovereignty, and since 23 March 1948, the central Danish government has been concerned only with matters of common interest, such as foreign policy and foreign-currency exchange. The Faroes have their own flag, levy their own taxes, and issue their own postage stamps and banknotes. The Faroese language, revived in the 19th century and akin to Icelandic, is used in schools, with Danish taught as a first foreign language.

The Faroese parliament, or Logting, dates back to Viking times and may be Europe's oldest legislative assembly. Members are elected by popular vote on a proportional basis from 7 constituencies to the 32-member Logting; representation has been fairly evenly divided among the four major parties. After the April 2002 election, the Union Party had 8 seats; Republican Party, 8; Social Democrats, 7; People's Party 7. The Independence Party and the Center Party had one seat each. The islands elect two representatives to the Folketing (Danish parliament).

In keeping with the islands' name, sheep raising was long the chief activity, but in recent years the fishing industry has grown rapidly. The total fish catch was nearly 360,000 metric tons in 1996; fisheries exports generated 94% of the territory's \$471 million in exports in 1999. Principal varieties of fish caught are cod, herring, and haddock; almost the entire catch is exported. Exports go mainly to Denmark (32%), the United Kingdom (21%), France (9%), Germany (7%), Iceland (5%), and the United States (5%). Imports valued at \$469 in 1999, come mainly from Denmark (28%), Norway (26%), Germany (7%), Sweden (5%), and Iceland (4%). Agriculture is limited to the cultivation of root vegetables, potatoes, and barley, and contributed 27% to the gross domestic product (GDP) in 1999.

The economy is regulated by an agreement with Denmark whereby the central government facilitates the marketing of Faroese fisheries products and guarantees to some extent an adequate supply of foreign currency.

### Greenland

Greenland (Grønland in Danish, Kalaallit Nunaat in Greenlandic) is the largest island in the world. Extending from 59°46' to 83°39' N and from 11°39' to 73°8' W, Greenland has a total area of 2,166,086 sq km (836,330 sq mi). The greatest N–S distance is about 2,670 km (1,660 mi), and E–W about 1,290 km (800 mi). Greenland is bounded on the N by the Arctic Ocean, on the E by the Greenland Sea, on the SE by the Denmark Strait (separating it from Iceland), on the S by the Atlantic Ocean, and on the W by Baffin Bay and Davis Strait. The coastline measures 44,087 km (27,394 mi). The ice-free strip along the coast, rarely exceeding 80 km (50 mi) in width, is only 410,449 sq km (158,475 sq mi) in area. The rest of the area, covered with ice measuring at least 2,100 m (7,000 ft) thick in some places, amounts to 1,755,637 sq km (677,855 sq mi). Greenland has a typically arctic climate, but there is considerable variation between localities, and temperature changes in any one locality are apt to be sudden. Rainfall increases from north to south, ranging from about 25 to 114 cm (10–45 in). Land transport is very difficult, owing to the ice and rugged terrain, and most local

travel must be done by water. SAS operates flights on the Scandinavia-US route via Greenland, and tourists are being attracted by Greenland's imposing scenery.

The population, grouped in a number of scattered settlements of varying sizes, was estimated at 56,376 in 2002, down from 58,203 in 1996. Greenlanders are predominantly Eskimos, with some admixture of Europeans. The Greenlandic language, an Eskimo-Aleut dialect, is in official use. Most native Greenlanders were engaged in hunting and fishing, but a steadily increasing number are now engaged in administration and in private enterprises. The Europeans chiefly follow such pursuits as administration, skilled services, and mining.

The Vikings reached Greenland as early as the 10th century. By the time Europeans rediscovered the island, however, Norse culture had died out and Greenland belonged to the Eskimos. Danish colonization began in the 18th century, when the whale trade flourished off Greenland's western shore. In 1933, the Permanent Court of Arbitration at The Hague definitively established Danish jurisdiction over all Greenland. Up to 1953, the island was a colony; at that time it became an integral part of Denmark. Greenland held that status until 1979, when it became self-governing after a referendum in which 70% of the population favored home rule. The 31 members in the Landsting (parliament) are elected by popular vote on the basis of proportional representation. In the election held November 2001, the left-wing Siumut Party won 10 seats; Inuit Ataqatigiit, 8; the right-wing Atassut Party, 7; the Demokratiit, 5; and the Katusseqatigiit, 1. Greenland elects two representatives to the Folketing; following the December 2002 election, the representatives were from the Siumut and Inuit Ataqatigiit parties.

Fishing, hunting (mainly seal, and to a lesser extent fox), and mining are the principal occupations. Greenland's total fish catch in 1994 was 112,576 tons, and fisheries exports were valued at \$267 million. Agriculture is not possible in most of Greenland, but some few vegetables are grown in the south, usually under glass.

At Ivigtut, on the southwest coast, a deposit of cryolite has long been worked by a Danish government-owned corporation, but reserves are believed to be nearing depletion. The government has a controlling interest in the lead-zinc mine at Mestersvig, on the east coast. Production began in 1956 and has continued sporadically. Low-grade coal mined at Disko Islands, midway on the west coast, is used for local fuel needs. Mining activities ceased in 1990 but exploration activity has revealed the potential

for economic exploitation of antimony, barite, beryllium, chromite, coal, columbium, copper, cryolite, diamond, gold, graphite, ilmenite, iron, lead, molybdenum, nickel, platinum-group metals, rare earths, tantalum, thorium, tungsten, uranium, zinc, and zirconium. Fish and fish products make up the bulk of exports. Raw materials are administered jointly by a Denmark-Greenland commission. Underground resources remain in principle the property of Denmark, but the Landsting has veto power over matters having to do with mineral development.

A US Air Force base is situated at Thule, in the far north along the west coast, only 14° from the North Pole; Greenland also forms part of an early-warning radar network. An international meteorological service, administered by Denmark, serves transatlantic flights. In 1960, a 1,500-kW atomic reactor was set up in northern Greenland to supply electric power to a new US scientific base built on the icecap, 225 km (140 mi) inland from Thule.

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# ESTONIA

Republic of Estonia

*Eesti Vabariik*

**CAPITAL:** Tallinn

**FLAG:** Three equal horizontal bands of blue (top), black, and white.

**ANTHEM:** *Mu isamaa, mu õnn ja rõõm* (My Native Land, My Pride and Joy).

**MONETARY UNIT:** The Estonian kroon (EEK) was introduced in August 1992, replacing the Russian ruble. EEK1 = \$0.07015 (or \$1 = EEK14.254); as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** New Year's Day, 1 January; Independence Day, 24 February; Good Friday, 14 April; Labor Day, 1 May; Victory Day, anniversary of the Battle of Vonnu in 1919, 23 June; Midsummer Day, 24 June; Christmas, 25–26 December.

**TIME:** 2 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Estonia is located in northeastern Europe, bordering the Baltic Sea, between Sweden and Russia. Comparatively, the area occupied by Estonia is slightly smaller than the states of New Hampshire and Vermont combined, with a total area of 45,226 sq km (17,462 sq mi). Estonia shares boundaries with the Baltic Sea on the N and W, Russia on the E, and Latvia on the S. Estonia's land boundaries total 633 km (392 mi). Its coastline is 3,794 km (2,352 mi). Estonia's capital city, Tallinn, is located in the northern part of the coast.

## <sup>2</sup>TOPOGRAPHY

The topography of Estonia consists mainly of marshy lowlands with a hilly region in the southeast.

## <sup>3</sup>CLIMATE

The proximity of the Baltic Sea influences the coastal climate. At the most western point, Vilsandi Saar, the mean temperature is 6°C (42.8°F). At the country's most eastern points, the mean temperature is between 4.2 and 4.5°C (36 to 40°F). Rainfall averages 50 cm (20 in) on the coast. Inland, rainfall averages 70 cm (28 in). Rainfall is heaviest during the summer and lightest in the spring.

## <sup>4</sup>FLORA AND FAUNA

Calcareous soil and a relatively mild climate permit rich flora and fauna in western Estonia. Native plants number over 1,500 species. The abundance of woodland and plant species provide a suitable habitat for elk, deer, wild boar, wolf, lynx, bear, and otter.

## <sup>5</sup>ENVIRONMENT

Air, water, and land pollution rank among Estonia's most significant environmental challenges. The combination of 300,000 tons of dust from the burning of oil shale by power plants in the northeast part of the country and airborne pollutants from industrial centers in Poland and Germany poses a significant hazard to Estonia's air quality.

Estonia's water resources have been affected by agricultural and industrial pollutants, including petroleum products, which have also contaminated the nation's soil. Some rivers and lakes

within the country have been found to contain toxic sediments in excess of 10 times the accepted level for safety.

The nation's land pollution problems are aggravated by the 15 million tons of pollutants that are added yearly to the existing 250 million tons of pollutants. In 1994, 24,000 acres of the country's total land area were affected. Radiation levels from the nuclear accident at Chernobyl exceed currently accepted safety levels.

As of 2001, 11% of the total land area was protected, including 10 Wetlands of International importance. According to UN sources, 14 types of plants and 38 forms of lichens are extinct. As of 2001, the list of threatened species included four types of mammals, two types of birds, and one type of freshwater fish. The European mink and the Atlantic sturgeon are among those listed as endangered.

## <sup>6</sup>POPULATION

The population of Estonia in 2003 was estimated by the United Nations at 1,323,000, which placed it as number 147 in population among the 193 nations of the world. In that year approximately 15% of the population was over 65 years of age, with another 18% of the population under 15 years of age. There were 85 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -1.10%, with the projected population for the year 2015 at 1,159,000. The population density in 2002 was 30 per sq km (78 per sq mi). The northern portion of the country is the most densely populated.

It was estimated by the Population Reference Bureau that 69% of the population lived in urban areas in 2001. The capital city, Tallinn, had a population of 397,000 in that year. Other large cities and their populations were Tartu, 109,133; Narva, 80,491; Kohtla-Järve, 56,141; and Pärnu, 52,085. According to the United Nations, the urban population growth rate for 2000–2005 was -1.0%.

## <sup>7</sup>MIGRATION

Newly independent in 1918, Estonia was occupied and annexed in 1940 by the Soviet Union. It was occupied by German troops the following year. When the Soviet army returned in 1944, more than 60,000 Estonians fled to Sweden and Germany. Other

Estonians were sent to Soviet labor camps. Many Russians migrated to Estonia under Soviet rule. Some left after Estonia became independent again.

Since the dissolution of the Soviet Union, Estonia has suffered from waves of transit migration. As of 1999, ethnic Estonians represent only 65% of the total population of Estonia. Russians, Ukrainians, and Belarussians represent nearly 33%, and other groups comprise the remaining 2%. Only 70% of inhabitants are citizens of Estonia, mainly the ethnic Estonians and about 100,000 Russians. Some 90,000 Russians with permanent residence in Estonia are citizens of the Russian Federation. These large ethnic minorities live segregated from ethnic Estonians and tend not to understand the Estonian language. In 2000 the net migration rate was -8.0 migrants per 1,000 population. The total number of migrants living in Estonia in that year was 365,000, approximately one-quarter of the population. The government views the migration levels as satisfactory.

## **8**ETHNIC GROUPS

In 1998, Estonians made up about 65% of the population, Russians 28.1%, Ukrainians 2.5%, Belarussians 1.5%, Finns 1%, and others 1.6%. Non-Estonians were found chiefly in the northeastern industrial towns, while rural areas were 87% Estonian. Citizenship is by birth only if at least one parent is an Estonian citizen. Naturalization requires three years' residence and competence in Estonian.

After the breakup of the Soviet Union, Estonia reinstated its pre World War II citizenship laws, which set conditions for non-Estonians to become citizens. Those who are neither Estonian nor Russian citizens are considered resident aliens.

## **9**LANGUAGES

Estonian is a member of the Finno-Ugric linguistic family. It is closely related to Finnish and distantly related to Hungarian. Standard Estonian is based on the North Estonian dialect. Most of the sounds can be pronounced as either short, long, or extra long. Changing the duration of a sound in a word can alter the grammatical function of the word or change its meaning completely. The language is highly agglutinative, and there are no less than 14 cases of noun declension. Most borrowed words are from German. The alphabet is Roman. The first text written in Estonian dates from 1525. Estonian is the official language; however, Russian, Ukrainian, English, Finnish, and other languages are also used.

## **10**RELIGIONS

Christianity was introduced into Estonia in the 11th century. During the Reformation it converted largely to Lutheranism, although political events in the 18th and 19th century occasioned a strong Russian Orthodox presence. Independence from the Soviet Union, achieved in 1991, relieved the pressure under which religious groups had labored since 1940.

In 2001 there were an estimated 165 congregations of the Estonian Evangelical Lutheran Church with about 177,230 members. There were also about 59 congregations of the Estonian Apostolic Orthodox Church (18,000 members) and 32 congregations of the Estonian Orthodox Church (100,000 members). While Lutherans and Orthodox constitute the majority, there are smaller communities of Baptists, Methodists, Roman Catholics, and other Christian denominations. There are also Jewish, Muslim, and Buddhist communities; however, each of these minority faiths has less than 6,000 followers.

## **11**TRANSPORTATION

Estonia's railroad has a total of 968 km (602 mi) of track, all common carrier railway lines, not including industrial lines in 2002. Tallinn, Haapsalu, Pärnu, Tartu, and Narva are provided rail access to Russia, Latvia, and the Baltic Sea. In order to

overcome problems in rolling stock shortages and load fluctuations, a second line of tracks is being laid along the Tallinn-Narva route.

Highways in 2002 totaled 30,300 km (18,828 mi), of which 29,200 km (18,145 mi) are paved, including 75 km (47 mi) of expressways. Motor vehicles dominate domestic freight transportation, carrying nearly 75% of all dispatched goods.

The Baltic Sea (with the Gulf of Finland and Gulf of Riga) provides Estonia with its primary access to international markets. The principal maritime ports are Tallinn and Pärnu. The merchant fleet had 37 vessels of at least 1,000 GRT (of which 13 were cargo ships) for a total capacity of 245,958 GRT (193,042 DWT) in 2002. Sea transportation has increased especially since the completion of Tallinn's new harbor and the acquisition of high capacity vessels. Ships carry grain from North America and also serve West African cargo routes. In 1990, a ferry service opened between Tallinn and Stockholm. During one of these commutes in September 1994, the ferry *Estonia* sank off the coast of Finland, resulting in about 900 deaths. The tragedy brought international attention to the safety design of roll-on/roll-off ferries in use worldwide.

There were an estimated 32 airports in 2001, eight of which had paved runways. The principal airport at Tallinn has direct air links to Helsinki and Stockholm. Estonian Air is the principal international airline. In 2001, 278,000 passengers were carried on scheduled domestic and international airline flights.

## **12**HISTORY

What is now Estonia was ruled in turn by the Danes, the Germans, and the Swedes from the Middle Ages until the 18th century. Russia annexed the region in 1721. During the 19th century, an Estonian nationalist movement arose which by the early 20th century sought independence.

After the 1917 Bolshevik Revolution and the advance of German troops into Russia, Estonia declared independence on 24 February 1918. But after the German surrender to the Western powers in November 1918, Russian troops attempted to move back into Estonia. The Estonians, however, pushed out the Soviet forces by April 1919, and the following year Soviet Russia recognized the Republic of Estonia.

The Nazi-Soviet Pact of 1939 assigned Estonia to the Soviet sphere of influence. The Red Army invaded in June 1940 and "admitted" the Estonian Soviet Socialist Republic into the USSR in August 1940. However, Hitler's forces invaded the USSR in June 1941 and took control of Estonia shortly thereafter. The German Army retreated in 1944, and Soviet forces once again occupied Estonia.

Taking advantage of the relatively greater freedom allowed under Mikhail Gorbachev in the late 1980s, an Estonian nationalist movement, the Popular Front, was launched in 1987. Estonia declared its independence from Moscow on 20 August 1991. A new constitution was adopted on 28 June 1992.

With much fanfare, the last Russian tanks and 2,000 troops were removed from Estonia on 17 August 1994, ending 50 years of military presence in Estonia. Russia also announced it would begin dismantling two nuclear reactors within Estonia. Estonia demanded the return of more than 750 sq mi of land that Russia considered part of its territory, but that belonged to Estonia before World War II. When Estonia renewed its claim to those lands, the Russian government began constructing 680 border posts, many of which are guarded by armed soldiers and linked by fences.

One of the worst maritime disasters since World War II occurred on 28 September 1994, when the ferry *Estonia*, en route from Tallinn to Sweden, sank off the coast of Finland, killing about 900 people. Investigators reported that locks on the huge front cargo door of the ferry failed during a storm, letting in a flood of water that caused the ship to sink in only a few minutes.



LOCATION: 57°30' to 59°40' N; 21°50' to 28°10' E. BOUNDARY LENGTHS: Latvia, 339 kilometers (211 miles); Russia, 294 kilometers (183 miles); total coastline, 3,794 kilometers (2,358 miles). Territorial Sea Limits: 12 miles.

The 1995 parliamentary vote reflected dissatisfaction among rural inhabitants and pensioners and signaled a change from the vigorous free-market reforms that dominated Estonia's transition from Soviet rule. The results of the election, however, didn't significantly alter Estonia's commitment to a balanced budget, a stable currency, or a good foreign investment climate. Following the March 1995 elections, Tiit Vähi was approved as prime minister, but he and his cabinet resigned in October 1995 amidst a scandal within the administration that involved telephone tapping and the clandestine sales of weapons. President Lennart Meri later appointed a new government, which reinstated Vähi as prime minister. In September 1996 Meri won a second presidential term, although the election was turned over to an electoral college after no candidate won the required two-thirds majority in parliamentary balloting in August. Following a no-confidence vote in February 1997, Prime Minister Vähi resigned and was replaced by Mart Siimann, who formed a minority government.

Reformers once again won control of Estonia's parliament in the March 1999 general elections, in which a coalition of center-right parties gained a slim majority, winning 53 out of 101 seats. (However, the left-leaning Center Party won 28 seats, the highest number for a single party.) Mart Laar was named prime minister. The new government was expected to emphasize political reforms as much as economic ones, focusing on the elimination of corruption and inefficiency in the civil service, courts, and police.

Since it gained its independence in 1991, Estonia's foreign policy has focused on integration with Western Europe, with the specific long-range goals of EU and NATO membership. One of these goals received a boost in 1998 when Estonia was invited by the European Union to begin negotiations toward membership.

In December 2002, the EU formally invited Estonia, one of 10 new candidate countries, to join the body as of May 2004. A referendum on Estonia's entry into the EU was to be held on 14 September 2003. In November 2002, Estonia was one of seven Central and East European countries to be invited to join NATO, with accession slated for 2004. Internally, Estonia still faces the challenge of integrating its minority population of ethnic Russians fully into the nation's public life.

In September 2001 Arnold Rüütel was elected president, succeeding Meri, who was barred by the constitution from seeking a third consecutive term. Rüütel's victory was seen as a reaction to popular dissatisfaction with the government and growing economic problems in small towns and rural areas, among other reasons. However, because none of the presidential candidates received the required two-thirds vote in parliament after three rounds of voting, an electoral college, composed of all members of parliament and 266 local government representatives, elected the president. In January 2002, Laar resigned as prime minister and Siim Kallas took his place.

Parliamentary elections held on 2 March 2003 resulted in the formation of a coalition government made up of the center-right Res Publica, the right-leaning Reform Party, and the rural party People's Union. Thirty-six-year-old Juhan Parts became prime minister on 10 April.

Estonia has the most advanced information infrastructure of any country in the former communist Eastern block. Around 700,000 of Estonia's approximately 1.4 million people bank online, up from zero in 1997. Citizens use the Internet to access state services and to conduct any number of business transactions, and many people who never owned a landline telephone now rely on wireless phones.

President Rüütel announced his support of the US-led military campaign against the Saddam Hussein regime in Iraq that began on 19 March 2003, although he regretted the fact that a peaceful resolution to the crisis was not achieved.

### 13 GOVERNMENT

Estonia adopted a new post-Soviet constitution on 28 June 1992. It declares Estonia a parliamentary democracy with a unicameral parliament. The parliament is known as the Riigikogu, and has 101 seats. Members of parliament serve four-year terms. The president (who is elected for a five-year term), prime minister and the cabinet make up the executive branch of government. The president is the head of state while the prime minister is the head of government. Both the parliament and the president are elected by direct universal suffrage of citizens 18 years or older.

### 14 POLITICAL PARTIES

The Independent Communist Party of Estonia split from the Communist Party of the Soviet Union in January 1991. The Pro Patria Party, the Estonian Social Democratic Party, the Christian-Democratic Union of Estonia, the Estonian National Independence Party, and Estonian Green Movement were among the many parties that emerged in recent years. The Popular Front of Estonia, founded in 1988 to unite pro-independence forces, has lost much of its influence and role since the attainment of independence. The non-Estonian, mainly Russian, interests are represented by the Inter-Movement of the Working People of Estonia and the Union of Work Collectives, both founded in 1988. In addition, a Russian Democratic Movement has emerged that specifically represents the Russian-speaking population of Estonia.

In the parliamentary elections of March 1995, the Coalition Party and Rural Union (made up of four parties: Coalition Party, Country People's Party, Farmer's Assembly, and Pensioners' and Families' League) won 41 seats; Reform Party-Liberals, 19; Center Party, 16; Pro Patria, 8; Our Home is Estonia, 6;

Moderates (consisting of the Social Democratic Party and Rural Center Party), 2; and Right-Wingers, 5.

The Pro Patria and the Estonian National Independence Party, which had allied themselves in the 1995 election, joined forces at the end of that year to form the Fatherland Union. In the March 1999 elections, the Fatherland Union and two other parties formed a broader coalition that won a narrow majority in parliament, garnering a total of 53 parliamentary seats (Fatherland Union, 18; Estonian Reform Party, 18; Moderates, 17). However, the party winning the single largest number of seats was the Estonian Center Party, with 28. The remaining seats were distributed as follows: the Estonian Coalition Party, 7; the Estonian Rural People's Union, 7; and the United People's Party, 6.

In the 2 March 2003 elections, the Center Party and Res Publica, a new political party, each won 28 seats in the Riigikogu; the Reform Party took 19 seats; the People's Union won 13; the Fatherland Union took 7 seats; and the Moderates won 6. The Res Publica, Reform, and People's Union parties formed a coalition government, securing 60 of 101 seats in parliament.

## 15 LOCAL GOVERNMENT

Estonia's major administrative divisions are 15 counties (*maakond*). The counties are further subdivided into communes (*vald*) and 241 municipalities (202 rural and 39 urban).

While only citizens are allowed to vote in Estonia's national elections, residents of Estonia, including non-citizens, are allowed to vote in local elections. Non-citizens, however, cannot be candidates in local (or national) elections. The last local elections were held on 20 October 2002; 3,273 seats were decided, and office-holders serve three-year terms.

## 16 JUDICIAL SYSTEM

The 1992 constitution established a court system consisting of three levels of courts: (1) rural, city, and administrative courts, (2) circuit courts of appeal, and (3) the Supreme Court. The Supreme Court engages in constitutional review of legislation. At the rural and city courts, the decisions are made by a majority vote with a judge and two lay members. There are 2 city courts, 14 county courts, and 4 administrative courts in Estonia (20 courts of first instance). The Supreme Court has 17 judges.

The Constitution provides for an independent judiciary and the judiciary is independent in practice. The Chief Justice of the Supreme Court, nominated by the president and confirmed by the Riigikogu, nominates Supreme Court judges, whose nominations need to be confirmed by the Riigikogu. The Chief Justice of the Supreme Court also nominates the lower court judges who are then appointed by the president. Judges are appointed for life. The 1992 interim criminal code abolishes a number of political and economic crimes under the former Soviet Criminal Code. A new criminal procedural code was adopted in 1994.

The constitution provides for a presumption of innocence, access to prosecution evidence, confrontation and cross-examination of witnesses and public trials.

## 17 ARMED FORCES

Active armed forces numbered 5,510 in 2002, with some 24,000 reserves. The army maintained four defense regions with 2,550 soldiers. The navy numbered 440 and the air force had 220 members. The Estonian Border Guard numbered 2,600 and also served as the coast guard. The estimated defense expenditure in 2002 was \$155 million or 2% of GDP.

## 18 INTERNATIONAL COOPERATION

Estonia was admitted to the UN on 17 February 1991. The country is a member of the OSCE, EBRD, FAO, IAEA, IMF, UNCTAD, UNESCO, UPU, WHO, WIPO, the World Bank, and the WTO, and is applying for membership in other international

organizations, but is not a member of the CIS. In 2002, Estonia was formally invited to join both the EU and NATO, with accession to each body slated for 2004.

## 19 ECONOMY

Estonia has one of the strongest economies among the former Soviet republics. Its mineral resources include 60% of former Soviet oil shale deposits, as well as phosphates. Light manufacturing dominates industry, with major sectors that include textiles, furniture, and electronics. Agriculture is based mainly on rearing livestock, but dairy farming is also significant. Estonia is self-sufficient in electrical power.

The economy started to revive after the 1992 monetary reform, reintroducing the preoccupation quasi-convertible Estonian kroon. Estonia's economy quickly became one of the strongest post-communist economies in eastern Europe as successive governments remained committed to the implementation of market reforms. Growth continued until 1998, when Estonia underwent its first post-Soviet economic downturn. GDP growth slowed to 4% in 1998 and declined to -1.1% in 1999. The economy began to improve the following year.

Estonia's economic progress is linked to its liberal foreign trade regime (there are few tariffs or non-tariff barriers), effective bankruptcy legislation, and swift privatization. State subsidies were in the process of being abolished in the early 2000s, and all of these measures helped to stabilize and restructure the economy. As a result, Estonia received high levels of foreign direct investment. Although the global economy was in a downturn in the early 2000s, Estonia was able to maintain GDP growth rates of around 5%, higher than many other European countries. Major growth sectors include information technology, transportation, and construction services. Estonia was formally invited to join the EU in December 2002, with accession planned for May 2004. The country became a member of the WTO in 1999.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Estonia's gross domestic product (GDP) was estimated at \$15.2 billion. The per capita GDP was estimated at \$10,900. The annual growth rate of GDP was estimated at 4.4%. The average inflation rate in 2002 was 3.7%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 6% of GDP, industry 29%, and services 66%. Foreign aid receipts amounted to about \$50 per capita and accounted for approximately 1% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$2,764. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 5%. Approximately 41% of household consumption was spent on food, 24% on fuel, 8% on health care, and 4% on education. The richest 10% of the population accounted for approximately 29.8% of household consumption and the poorest 10% approximately 3.0%.

## 21 LABOR

In 2001, the total economically active population was estimated at 608,600. Of these workers, 20% were engaged in industry, 69% in services, and 11% in agriculture. Unemployment was 12.4% in 2001.

The Estonian constitution guarantees the right to form and freely join a union or employee association. The Central



Organization of Estonian Trade Unions (EAKL) was founded in 1990 as a voluntary and culturally Estonian organization to replace the Estonian branch of the Soviet labor confederation. In 2002, the EAKL claimed 58,000 members. A rival union, the Organization of Employee Unions, split off from the EAKL in 1993, and claimed about 40,000 members in 2001. In that same year, about one-third of the workforce was unionized. Workers have the right to strike, and collective bargaining, though legal, is still developing.

The statutory minimum employment age is 16, although children aged 13 to 15 years may work with parental permission. The standard workweek is legally set at 40 hours with a mandatory 24-hour rest period. The monthly minimum wage was \$93 in 2002, although only about 5–6% of the population received this wage.

## 22 AGRICULTURE

In 1999, agricultural lands covered 1,433,200 ha (3,541,200 acres), or 31.7% of Estonia's land area. During the Soviet period, forced collectivization reduced the share of labor in agriculture from 50% to less than 20%. By 1999, however, there were 41,446 private farms, and just 734 state enterprises and cooperatives. Agriculture accounted for 15.1% of GDP in 1991 and 6% in 2001.

Principal crops in 2001 included potatoes, 343,100 tons; barley, 270,000 tons; wheat, 133,000 tons; rye, 42,900 tons; and legumes, 6,500 tons. In 2001 agricultural products accounted for 7.5% of exports and 11.4% of imports; the agricultural trade deficit was \$292.8 million that year.

## 23 ANIMAL HUSBANDRY

Over 10% of the total land area is meadow or pastureland. In 2001, there were 300,200 pigs, 252,800 head of cattle, 29,000 sheep, and 2,366,000 chickens. Meat production is well developed and provides a surplus for export. In 2001, 14,100 tons of beef, 33,600 tons of pork, and 9,200 tons of poultry were produced. That year, Estonia's dairy cows produced 683,200 tons of milk. Cattle breeding was the main activity during the Soviet era, and production quotas were set extremely high, which required massive imports of feed. Pork production has risen in recent years to offset the decline in the total cattle herd. The wool clip in 2001 was 65 tons.

## 24 FISHING

Estonia's Baltic and Atlantic catch is marketed in the former Soviet Union, in spite of its own need for quality fish products. The fishing industry is seen as an important way to acquire access to the world market, but scarcity of raw materials currently limits its development. The total catch in 2000 was 113,146. The total value of fisheries exports decreased from \$107.8 million in 1995 to \$79.7 million in 2000. The two major species of the 2000 catch were Atlantic herring and European sprat, each of which accounted for 37%.

## 25 FORESTRY

The government estimated that some 45% of the land area was covered by forests and woodlands in 1999. The production of wood and wood products is the second-largest industry after textiles; two cellulose plants (at Tallinn and Kehra) use local raw material, but have caused significant environmental problems. There is also a fiberboard processing plant (for furniture making) at Püssi. Roundwood production amounted to 8.9 million cu m (314 million cu ft) in 2000; when exports of 4.4 million cu m (155 million cu ft) of roundwood were valued at \$135.9 million. Total forestry exports in 2000 amounted to \$381 million; imports, \$105.7 million.

## 26 MINING

Oil shale was the primary mineral of importance. The country also produced cement, clays, nitrogen, peat, sand and gravel, and industrial silica sand. Production figures for 2000 were: clays for brick, 97.2 million cu m, up from 19.8 million cu m in 1996; clays for cement, 37.7 million cu m, up from 25.5 million cu m in 1997; and sand and gravel, 1.25 million cu m. Phosphate quarrying at the Maardu deposit ceased because of environmental concerns.

## 27 ENERGY AND POWER

Estonia is the only country in the world that gets most of its energy from oil shale, found in abundance in the northeastern region of the country. About 90% of the annual production is burned to produce electricity at the Estonian Thermal Power Station and the Baltic Thermal Power Station. Oil shale satisfied more than 75% of Estonia's total energy needs as of 2001 but could not meet its total demand for oil, which totaled 25,000 barrels per day. Like the other Baltic states, Estonia is obliged to import oil and natural gas from Russia, and its need for imported energy is likely to rise, as the country is under pressure from the European Union (EU) to reduce its dependence on oil shale for environmental reasons. Production was expected to decline from 12 million tons per year in 2001 to 10.5 million by 2006. A mining law passed in 1994 set up environmental protection requirements for mining as well as providing legislation regarding exploration and extraction. Over 80% of the land disturbed by oil shale mining has been reclaimed. There are no natural gas reserves in Estonia, which relies on imports from Russia. Natural gas consumption, which plummeted from 1.5 billion cu m (53 billion cu ft) in 1992 to 595 million cu m (1.96 billion cu ft) in 1993, had reached 1.1 billion cu m (39 billion cu ft) by 2000.

Electrical generating capacity from the Narva Power Plants (the 1,610 MW Eesti plant and the 1,390 MW Balti plant) meets about 95% of the country's power needs. Total electricity production in 2000 was 7.1 billion kWh, well over the 5.4 billion kWh of electricity consumer that year. Surplus electricity from the two plants is exported to Latvia and the Russian Federation. Total installed capacity in 2001 was 3.2 million kW.

## 28 INDUSTRY

Estonian industrial production focuses on shipbuilding, electric motors, furniture, clothing, textiles, paper, shoes, and apparel. Extractive industries include oil shale, phosphate, and cement production. According to the US Central Intelligence Agency, industry accounted for 29% of GDP in 2001. In 1991, 26.6% of industrial output was accounted for by the food industry, 25.9% by light industry, 12.7% by machine-building and metalworks, 10.3% by the timber industry, and 8.5% by chemicals. The textile mills of Kreenholmi Manufacturer in Narva and Balti Manufacturer in Tallinn are the country's largest industrial enterprises. Construction was slated to be a principal growth sector in 2002.

Between 1990 and 1995, industrial output shrank by an average of 14.9% per year, but most of the decline occurred in the years immediately after independence; by 1994, industrial production was on the rise. In 1995, value added by industry accounted for 28% of GDP and has remained stable since.

## 29 SCIENCE AND TECHNOLOGY

The Academy of Sciences, founded in 1938, has divisions of astronomy and physics, informatics and technical sciences, and biology, geology, and chemistry, and research institutes devoted to biology, ecology, experimental biology, zoology and botany, environmental biology, marine sciences, astrophysics and atmospheric physics, chemical physics and biophysics, chemistry, geology, physics, computer research and design, cybernetics, and

energy. Other research institutes in the country are devoted to preventive medicine and oil shale research. Tallinn Technical University (founded in 1918) offers science and engineering degrees. The University of Tartu, founded in 1632, has faculties of biology and geography, mathematics, medicine, and physics and chemistry, as well as an institute of general and molecular pathology. Estonian Agricultural University was founded in 1951. In 1987–97, science and engineering students accounted for 27% of university enrollment. In the same period, expenditures for research and development totaled 0.6% of GNP; 2,017 scientists and 391 technicians per million people were engaged in research and development.

### 30 DOMESTIC TRADE

Before the collapse of the Soviet Union, Estonia's domestic trade was underdeveloped by international standards. Most trading companies were owned either by the state or by cooperatives. In recent years, many shops have been privatized or municipalized, new private shops established, and the assortment of goods widened. By 1992, there were 4,026 shops in Estonia.

Open-air markets control a large segment of domestic food sales. Market prices are usually lower than those in grocery stores, making it difficult for them to compete. Retail sales of food products amounted to \$441 million in 1995.

### 31 FOREIGN TRADE

During the Soviet era, Estonia's foreign trade was characterized by large net imports, 80–85% of which came from other Soviet republics, the destination of 95% of Estonian exports. Beginning in 1992, the value of exports began to surpass that of imports, and the share of trade with other former Soviet republics diminished. In 2000, Estonia's exports totaled \$3.8 billion, 69% of which went to EU nations.

The most important export industry in Estonia is electronics (24.5%). Cork, wood, and their manufactures account for the second-largest consolidated group of commodity exports (11.9%). Other important exports include apparel (5.3%), textiles (4.4%), and furniture (3.8%).

In 2000 Estonia's imports were distributed among the following categories:

Consumer goods	12.7%
Food	8.9%
Fuels	7.2%
Industrial supplies	31.0%
Machinery	31.5%
Transportation	8.5%
Other	0.2%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Finland	1,033	1,205	-172
Sweden	663	439	224
Germany	294	446	-152
Latvia	275	123	152
Russia	260	713	-453
Netherlands	168	104	64
United Kingdom	150	110	40
Lithuania	120	74	46
Denmark	111	111	0
United States	70	121	-51
Ukraine	69	46	23
Japan	13	281	-268

### 32 BALANCE OF PAYMENTS

Since independence, Estonia has dismantled a Soviet-era system of trade barriers and tariffs to become one of the world's most

free-trading nations. In the early 1990s, exports to the west quadrupled, helping to generate a strong surplus in the current account. More recently, however, the balance of trade on goods has been negative.

Constrained by its currency board system, Estonia stands to grow by attracting foreign capital. Services and capital inflows have produced income in the form of foreign direct investment, which remains strong.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Estonia's exports was \$3.4 billion while imports totaled \$4.4 billion resulting in a trade deficit of \$1 billion.

The International Monetary Fund (IMF) reports that in 2001 Estonia had exports of goods totaling \$3.34 billion and imports totaling \$4.13 billion. The services credit totaled \$1.64 billion and debit \$1.07 billion. The following table summarizes Estonia's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-399</b>
Balance on goods	-787
Balance on services	578
Balance on income	-281
Current transfers	151
<b>Capital Account</b>	<b>5</b>
<b>Financial Account</b>	<b>306</b>
Direct investment abroad	-200
Direct investment in Estonia	539
Portfolio investment assets	13
Portfolio investment liabilities	83
Other investment assets	-298
Other investment liabilities	171
<b>Net Errors and Omissions</b>	<b>-13</b>
<b>Reserves and Related Items</b>	<b>40</b>

### 33 BANKING AND SECURITIES

All links with the Soviet budget and financial system were severed in 1991, and today Estonia has the strongest and most advanced banking system in the Baltic States. In January 1990 the Bank of Estonia was created, which merged two years later with the Estonian branch of Gosbank (the Soviet State Bank) to form the country's new central bank. In December 1988 the authorities established the first Estonian commercial bank, the Tartu Commercial Bank, and by September 1991 there were 20 commercial banks responsible for 27% of total credit extended by banks. The commercial banks include the Bank of Tallinn (1990), Estonian Commercial Bank of Industry (1991), Cand Bank of Estonia (1990), and South Estonian Development Bank. Savings banks include the Estonian Savings Bank, a bank with 432 branches.

Like those of other Eastern European countries, Estonia's banking sector has suffered from an excessive number of banks: there were 43 by the end of 1992. Consolidations took place in 1993, with the banks being merged in Eesti Uhispank (Estonian Unified Bank). As of 2001 there were 7 licensed commercial banks in Estonia. The merger agreement between the Union Bank of Estonia and the North Estonian Bank was signed in January 1997. With combined assets of EEK4.97 billion (\$414 million), the merger pushes Union Bank of Estonia (the name of the new entity) from third to second place in terms of assets. Hansabank remains Estonia's largest bank, especially after its recent merger with Hoiupank (Saving Bank). In 1999, SwedBank bid successfully for a majority interest in Hansabank.

Since independence, Estonia's banks have played a major role in fostering a climate of economic stability. In 1997, they took the initiative in tightening credit in the wake of the Asian financial crisis. This action, which resulted in a rise in interest rates, checked fears of a too-rapid economic expansion, which would

bring about inflation. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$2.3 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.92%.

There are two stock exchanges in Estonia: the Estonian Stock Exchange and the Tallinn Stock Exchange, inaugurated in May 1996. As of early July 2001, the Tallinn exchange's list of stocks included Hansabank and Eesti Telekom, and bonds in the state-owned Compensation Fund, bringing its market capitalization to EEK26 billion (US \$1.5 billion).

### 34 INSURANCE

Since Estonia regained its independence, it has sought to develop a system of health insurance involving the decentralization of medical care.

### 35 PUBLIC FINANCE

The new government exercises fiscal responsibility characterized by a strictly balanced budget. No transfers or preferential credits are given to public enterprises, and governmental borrowing from the central bank is forbidden. In January 1996 Estonia instituted a centralized treasury system for managing the government's budget.

The US Central Intelligence Agency (CIA) estimates that in 2002 Estonia's central government took in revenues of approximately \$1.9 billion and had expenditures of \$1.9 billion. External debt totaled \$3.3 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>1,890</b>
Tax revenue	88.0%	1,663
Non-tax revenue	8.8%	167
Capital revenue	1.1%	21
Grants	2.1%	39
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>1,890</b>
General public services	7.8%	147
Defense	5.0%	94
Public order and safety	7.2%	135
Education	7.3%	138
Health	16.3%	308
Social security	31.4%	594
Recreation, cultural, and religious affairs	4.0%	75
Economic affairs and services	9.5%	179
Interest payments	0.6%	11
Other expenditures	11.1%	210

### 36 TAXATION

As of 2003, Estonia had one of the most liberal and simple tax regimes in the world. The Law on Taxation of 1994 has been amended several times, and a new Income Tax Law was passed 15 December 1999 (effective 1 January 2000). The corporate income tax rate is 26% on distributed profits, and 0% on reinvested profits. Corporations can choose when they will pay their taxes.

Personal income taxes are assessed at the same flat rate of 26% as corporate profits. The standard tax-free deduction is 6,000 Kroon (about \$432). Some school fees, living allowances, and interest on loans for the purchase of residential housing are deductible from taxable income. A withholding tax of 26% is imposed on dividend paid to nonresidents that hold less than

25% of the share capital in the paying company. However, Estonia has double tax treaties with at least 22 countries in which withholding taxes are eliminated or substantially reduced. A new Law on Social Tax came into effect in January 1999. The rate of social tax is 33% (10% for social security and 13% for health insurance), all payable by the employers and self-employed individuals. There are relatively few allowable deductions from taxable income in the Estonian tax code. The annual land tax varies from 0.1% to 2.5% of assessed value.

Main indirect tax is a value-added tax (VAT) set at a with a standard rate of 18% by a new Law on VAT passed in July 2001 and effective in January 2002. Reduced rates of 0% and 5% apply to some goods and services, including a 0% rate on exported goods and a specific list of exported services. Excise duties are levied on tobacco, alcoholic beverages, motor fuel, motor oil, and fuel oil (but not liquefied or compressed gas), motor vehicles, and packages (imposed to encourage recycling of package material. There is a gambling tax, and a customs processing fee of 200 Kroon (about \$14) on each customs declaration submitted. Rights of recording are taxed are taxed at 0.4%. Local governments have the authority to impose taxes and municipal taxes range from 1% to 2%.

### 37 CUSTOMS AND DUTIES

Estonia has a liberal trade regime, with few tariff or non-tariff barriers. Among the few items that have tariffs placed on them are agricultural goods produced in countries that are not among Estonia's preferred trading partners. There is also a value-added tax (VAT) levied ad valorem on everything except a few select commodities, including medicines and medical equipment, funeral equipment, and goods for non-profit purposes. Estonia is in accession negotiations with the European Union and is trying to adopt EU market practices to expedite the process.

### 38 FOREIGN INVESTMENT

Estonia has successfully attracted a large number of joint ventures with Western companies, benefiting from a well-developed service sector and links with Scandinavian countries. The foreign investment act passed by the Supreme Council in September 1991 offers tax relief to foreign investors. Property brought into Estonia by foreign investors as an initial capital investment is exempt from customs duties, but is subject to value-added tax. A foreign investor is legally entitled to repatriate profits after paying income tax.

In 1998, foreign direct investment (FDI) inflows peaked at \$580.6, up from \$266.7 million in 1997. FDI inflow averaged \$346 million in 1999 and 2000, but increased to \$538 million in 2001. Estonia's share of world FDI flows from 1998 to 2000 were 2.3 times its share of world GDP, making it 16th among the 140 countries ranked on FDI performance by UNCTAD.

Industry accounts for 46% of the total foreign investment, primarily in the pulp and paper, transportation, and services sectors. Wholesale and retail trade accounts for 27% of foreign investment; transport, 14%. Estonian agribusiness is an area of growing interest to foreign investors.

### 39 ECONOMIC DEVELOPMENT

After passing an ownership act in June 1990, the government began a privatization program at the beginning of 1991. Most of the nearly 500 state-owned companies have since passed into new hands. The Estonian Privatization Agency (EPA) was established to oversee major privatization programs. In late 1995, EPA announced privatization plans for Estonian Railways, Estonian energy, Estonian Oil Shale, Estonian Telekom, and Tallinn Ports. Estonian Gas, Estonian Tobacco, and Estonian Air were privatized in 1996. As of the 2002, only the port and the main power plants remained state-controlled.

Estonia has excellent intellectual property laws, has enacted modern bankruptcy legislation, and has seen the emergence of well-managed privately held banks. The constitution mandates a balanced budget, and the climate for foreign investment is positive. The country joined the World Trade Organization (WTO) in 1999 and was invited to join the European Union (EU) in December 2002, with accession planned for 2004. In 2003, the economy was vulnerable, and the size of the current account deficit was a particular concern. The government was urged by the International Monetary Fund (IMF) to pursue a fiscal surplus policy, to prepare for membership in the European Economic and Monetary Union.

#### 40 SOCIAL DEVELOPMENT

Social security programs were originally introduced in 1924. After independence from the Soviet Union, new social insurance systems were introduced between 1991 and 1994. Current pension systems are funded by contributions from employers and the government. Retirement is set at age 63 for men and 58 for women, and is set to increase to age 63 for both men and women by 2003. Other social welfare programs include worker's compensation, unemployment assistance, survivorship payments, maternity and sickness benefits, and family allowances. Medical care is free for children.

Women constitute slightly more than half the work force, and in theory are entitled to equal pay. Although women on average achieve higher educational levels than men, their average pay was lower. Sexual harassment is not official reported. Domestic violence is a widespread problem and is grossly underreported; Spousal abuse is not a criminal offense. Public attention is focused increasingly on the welfare of children in the wake of family crises caused by economic dislocation. Several safe havens for children have been established.

Ethnic Russians sometimes face discrimination in housing and employment. Estonian language requirements make it difficult for many of them to find public sector employment. Citizenship has not automatically been extended to ethnic Russians living in Estonia, and a significant proportion of the population remain noncitizens. Discrimination based on race, sex, nationality, or religion is illegal under the constitution. Prison conditions remain poor, and police brutality is commonly reported.

#### 41 HEALTH

A major reform of the primary care system was implemented in 1998, making family practitioners independent contractors with combined private and public-financed payment. In 2000, there was an estimated fertility rate of 1.2. The maternal mortality rate was 50 maternal deaths per 100,000 live births as of 1998. In 2000, the infant mortality rate was an estimated 8 per 1,000 and the overall death rate as of 2002 was 13.4 per 1,000 people. Life expectancy in 2000 averaged 71 years. In 1999, Estonia immunized children up to one year old against diphtheria, pertussis, and tetanus, 95%; and measles, 92%.

The number of hospitals in Estonia decreased significantly during the 1990s, with the number of available beds cut by one-third between 1991 and 1995. As of 1998, there were 78 hospitals, with a total of 10,509 beds. The number of physicians has decreased as well, from 5,500 in 1991 to 4,311 in 1998. As of 1999, there were an estimated 3 physicians and 7.4 hospital beds per 1,000 people. The country's only medical school is the Tartu University Medical Faculty.

In 1996, eight new AIDS cases were reported. In 1999, 61 new cases of tuberculosis were reported per 100,000 people. No cases of polio or neonatal tetanus were reported in 1995.

#### 42 HOUSING

According to 2000 census figures, housing stock consisted of 415,146 apartment buildings, 166,765 detached or semi-

detached, family dwellings, 16,692 other small residential buildings, and 2,032 non-residential buildings that were being used for housing.

The housing costs of low-income families are subsidized. Most housing is expected to be privatized eventually.

#### 43 EDUCATION

The country's adult literacy rate in 1995 was 99.8% for both men and women.

Prior to the 1990s, the Soviet system of education was followed. This was modified after Estonia's separation from the USSR. Both Russian and Estonian are taught. Estonian-language schools have 12 years of schooling with six years of primary and six years of secondary education. Russian-language schools have a total of 11 years of schooling. In 1997, primary schools enrolled 126,800 students. In 1996, secondary schools enrolled 112,288 students and employed 11,098 teachers. The pupil-teacher ratio at the primary level was 14 to 1 in 1999. In the same year, 98 % of primary-school-age children were enrolled in school, while 90% of those eligible attended secondary school. As of 1999, public expenditure on education was estimated at 6.8% of GDP.

There are two well-known universities: the University of Tartu, founded in 1632, and the Talliva Technical University, founded in 1936, which mainly offers engineering courses. In 1997, all higher-level institutions had a total of 43,468 pupils and 4,435 teachers.

#### 44 LIBRARIES AND MUSEUMS

The National Library of Estonia in Tallinn, founded in 1918, contains three million volumes. Other important libraries located in Tallinn include the Estonian Technical Library, (11.8 million volumes) and the Estonian Academic Library (2.2 million). The Tartu State University Library is the largest academic library with 3.7 million volumes. The public library system has 602 administrative units and holds in total 10.6 million volumes, as of 1997, and claims 407,000 registered users.

The Estonian History Museum in Tallinn was established in 1864. It contains 230,000 exhibits that follow the history of the region's people from ancient times to the present. The Estonian National Museum in Tartu, established in 1909, features exhibits about the living conditions of Estonians. Also in Tallinn is the Art Museum of Estonia, the Estonian Open Air Museum, the Estonian Theater and Music Museum, and the Tallinn City Museum. Tartu University houses a Museum of Classical Antiquities.

#### 45 MEDIA

Though the telecommunications system has had recent improvements in the form of foreign investment through business ventures, There are still thousands of residents on waiting lists for service lines, with the average wait for service at about 1.4 years in 2000. As of 2000, there were 501,691 main line telephones in the country and 711,000 mobile cellular phones.

Estonian Radio began regular broadcasting in 1926. In 1937, the highest radio tower in Europe (196.7m) was built in Türi. In the 1970s, Estonian Radio was the first in the former Soviet Union to carry advertising. Estonian television began broadcasting in 1955, and started color broadcasts in 1972. It broadcasts on four channels in Estonian and Russian. As of 2001, there were 98 FM radio stations and 3 television stations. About 90 out of every 1,000 people subscribed to cable television. In 1997, there were 1,096 radios and 591 television sets per 1,000 people. In 2000, there were about 153 personal computers per 1,000 people. In 2001, 38 Internet service providers served about 540,000 users.

Journalism was subject to varying degrees of censorship from the Russian occupation in 1940 until the late 1980s. The most

popular daily newspapers (with 2002 circulation figures) are *Noorte Haal* (*The Voice of Youth*, 150,000), *Postimees* (*Postman*, 59,200), *Paevaleht* (*The Daily Paper*, 40,000), and *Rahva Haal* (*The Voice of the People*, 175,000). The most widely read weeklies (with 1995 circulation figures) are the *Maaleht* (*Country News*, 50,000) and the *Eesti Ekspress* (*Estonian Express*, 55,000).

Estonia has an active publishing industry, although it faced economic difficulties in the early 1990s. The ISBN code has been used in Estonia since 1988. There were 2,291,000 book titles published in 1994.

The government is said to respect constitutional provisions for free expression. Foreign publications are widely available and private print and broadcast media operate freely.

#### 46 ORGANIZATIONS

The Chamber of Commerce and Industry of the Republic of Estonia promotes trade and commerce with its neighbors. Also, there is a chamber of commerce in Tartu. Professional societies and trade unions have developed for a number of careers.

In 1989 Estonian sports were reorganized and the Soviets reduced their control of Estonia's sports system. In the same year the National Olympic Committee was restored. Other sports associations have since formed, including groups for wind surfing, yachting, and football.

Research and educational organizations include the Estonian Academy of Sciences and the Estonian Medical Association. The Estonian Institute, established in 1989, promotes the appreciation of Estonian culture abroad.

Most student organizations belong to the umbrella organizations of the Federation of Estonian Student Unions or the Federation of Estonian Universitas. Other youth organizations include the Estonian Green Movement and scouting programs. The Estonian Association of University Women promotes educational and professional opportunities for women.

#### 47 TOURISM, TRAVEL, AND RECREATION

Visitors are drawn to the country's scenic landscapes, Hanseatic architecture, music and dance festivals, regattas, and beach resorts. The ancient town of Tallinn, noted for its architectural preservation, is a major tourist attraction and is linked by regular ferries to Helsinki and Stockholm.

In 2000 there were 3,310,300 visitor arrivals and tourism receipts totaled \$506 million. There were 7,599 hotel rooms with 16,292 beds and a 48% occupancy rate. In 2003 the US Department of State estimated the cost of staying in Tallinn at \$161 per day.

#### 48 FAMOUS ESTONIANS

Lennart Meri (b.1929), writer and historian, became president of Estonia in 1992 and won a second term in 1996. Writer Friedrich Reinhold Kreutzwald (1803–1882) wrote the epic *Kalevipoeg* (*Son of Kalev*), which was published by the Estonian Learned Society between 1857–61 and marked the beginning of Estonian national literature.

The Revolution of 1905 forced many Estonian writers to flee the country. In 1906 a stable government was established in Estonia and a literary movement took hold, Birth of Young Estonia. The movement was led by poet Gustav Suits (1883–1956). He fled to Finland in 1910 but returned after the Russian Revolution of 1917. Later, Suits became a professor of literature at Tartu University. His fellow writers and poets between the revolution of 1917 and 1940 included Friedbert Tuglas (1886–1971) and Marie Under (1883–1980). Writers who fled abroad during World War II include Karl Rumor (1886–1971) and Arthur Adson (1889–1977). Estonian writers banned or exiled during the Soviet period include the playwright Hugo Raudsepp.

#### 49 DEPENDENCIES

Estonia has no territories or colonies.

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# FINLAND

Republic of Finland  
*Suomen Tasavalta*

**CAPITAL:** Helsinki

**FLAG:** The civil flag contains an ultramarine cross with an extended right horizontal on a white background.

**ANTHEM:** *Maamme* (in Swedish, *Vårt land*; *Our Land*).

**MONETARY UNIT:** The euro replaced the markkaa as the official currency in 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; May Day, 1 May; Independence Day, 6 December; Christmas, 25–26 December. Movable holidays include Good Friday, Easter Monday, Whitsun, and Midsummer Day (late June). Epiphany, Ascension, and All Saints' Day are adjusted to fall always on Saturdays.

**TIME:** 2 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Part of Fenno-Scandia (the Scandinavian Peninsula, Finland, Karelia, and the Kola Peninsula), Finland has an area of 337,030 sq km (130,128 sq mi), of which 31,560 sq km (12,185 sq mi) is inland water. Comparatively, the area occupied by Finland is slightly smaller than the state of Montana. Its length, one-third of which lies above the Arctic Circle, is 1,160 km (721 mi) N–S; its width is 540 km (336 mi) E–W.

Finland borders on the Russia to the E, the Gulf of Finland to the SE, the Baltic Sea to the SW, the Gulf of Bothnia and Sweden to the W, and Norway to the NW and N, with a total land boundary of 2,628 km (1,629 mi) and a coastline of about 1,126 km (698 mi), excluding islands and coastal indentations.

Finland's capital, Helsinki, is located on the country's southern coast.

## <sup>2</sup>TOPOGRAPHY

Southern and western Finland consists of a coastal plain with a severely indented coastline and thousands of small islands stretching out to the Åland Islands. Central Finland is an extensive lake plateau with a majority of the country's 60,000 lakes; 24.5% of the area of Mikkelin Province is water.

Northern Finland is densely forested upland. The highest elevations are in the Norwegian border areas; northwest of Enontekiö rises Haltia, a mountain 1,328 m (4,357 ft) above sea level. Extensive, interconnected lake and river systems provide important natural waterways.

## <sup>3</sup>CLIMATE

Because of the warming influence of the Gulf Stream and the prevailing wind patterns, Finland's climate is comparatively mild for the high latitude. During the winter, the average temperature ranges from -14°C to -3°C (7–27°F), while summer mean temperatures range from 13°C to 18°C (55–65°F). Snow cover lasts from about 90 days in the Åland Islands to 250 days in Enontekiö. Average annual precipitation (including both rain and

snow) ranges from cm (17 in) in northern Finland to 71 cm (28 in) in southern Finland.

## <sup>4</sup>FLORA AND FAUNA

Forests, chiefly pine, spruce, and birch, are economically the most significant flora. There are more than 1,100 native species of higher plants; flora is richest in southern Finland and the Åland Islands. Of 22,700 species of fauna, more than 75% are insects. At least 60 species of mammals are native to Finland. Fur-bearing animals (otter, marten, ermine) are declining in number, while elk, fox, and beaver have increased. Of some 248 species of breeding birds, the best known is the cuckoo, the harbinger of spring. Of some 66 species of freshwater fish, 33 have some economic importance; in fresh waters, the perch, walleyed pike, great northern pike, and others are plentiful. Salmon remains the favorite of fly rod enthusiasts.

## <sup>5</sup>ENVIRONMENT

Finland's main environmental issues are air and water pollution, and the preservation of its wildlife. Finland's principal environmental agency is the Ministry of the Environment, established in 1983. Beginning in 1987, environmental protection boards were established for every community with more than 3,000 inhabitants. To preserve the shoreline profile, 30–50% of the shores suitable for recreational use may not be built on. Industrial pollutants from within the country and surrounding countries affect the purity of both the nation's air and water supplies. In 1996 carbon dioxide emissions from industrial sources totaled 59.1 million metric tons. Acid rain from high concentrations of sulfur in the air has damaged the nation's lakes. Finland's cities produce about 2.8 million tons of solid waste per year. The nation has 107 cubic kilometers of renewable water resources with 82% used for industry and 17% used in domestic and urban areas. In 1993, the Finnish Council of State introduced new approaches to the control of water pollution. Lead-free gasoline was introduced in 1985.

Care is taken to protect the flora and fauna of the forests, which are of recreational as well as economic importance. Closed hunting seasons, nature protection areas, and other game-management measures are applied to preserve threatened animal species. As of 2001, 5.5% of Finland's total land area was protected. In 2001, 4 of the nation's 60 mammal species and 4 of its 248 breeding bird species were threatened, as well as 1 type of freshwater fish. Endangered species include the Siberian sturgeon, European mink, and the Saimaa ringed seal.

## 6 POPULATION

The population of Finland in 2003 was estimated by the United Nations at 5,207,000, which placed it as number 108 in population among the 193 nations of the world. In that year approximately 15% of the population was over 65 years of age, with another 18% of the population under 15 years of age. There were 95 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.18%, with the projected population for the year 2015 at 5,284,000. The population density in 2002 was 15 per sq km (40 per sq mi). Distribution is uneven, with the density generally increasing from northern and inland regions to the southwestern region.

It was estimated by the Population Reference Bureau that 67% of the population lived in urban areas in 2001. The capital city, Helsinki, had a population of 1,150,000 in that year. Other large cities include Tampere, 173,797; Turku, 159,403; Espoo, 175,670; and Vantaa, 157,274. Rovaniemi, with a population of 55,000, is considered the capital of Finnish Lapland. According to the United Nations, the urban population growth rate for 2000–2005 was 0.9%.

## 7 MIGRATION

From 1866 to 1930, a total of 361,020 Finns emigrated, mostly to the US and, after the US restriction of immigration, to Canada. After World War II, about 250,000 to 300,000 Finns permanently emigrated to Sweden. This migration ended by the 1980s because of a stronger Finnish economy.

More than 400,000 people fled the Soviet occupation of Karelia during World War II. There was also a heavy migration from rural areas, particularly the east and northeast, to the urban, industrialized south, especially between 1960 and 1975. By 1980, 90% of all Finns lived in the southernmost 41% of Finland.

As of May 1997, Finland had 14,000 refugees. Most of these were from the former Yugoslavia, Somalia, and Vietnam. Finland accepts 500 refugees each year for those who need an alternative to their first country of asylum. In 1995 and 1996, 500 additional places for resettlement were granted to former Yugoslavian refugees. During the latter half of the 1990s, Finland received on average 700–900 asylum-seekers per year. Approximately 60% of applicants were granted a residence permit. By July 1999, more than 1,000 Slovak Romas applied for asylum in Finland, prompting the Finnish government to implement a temporary four-month visa plan for Slovak citizens. By August 1999, 993 people had been evacuated from Macedonia to Finland; the evacuees were granted temporary protection for 11 months, with the potential for renewal for a maximum total of three years. In 1999 the net migration rate was 0.4 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The Finns are thought to be descended from Germanic stock and from tribes that originally inhabited west-central Russia. Excluding the Swedish-speaking minority, there are only two very small non-Finnish ethnic groups: Lapps and Gypsies. In 1998, Finns constituted 93% of the total population; Swedes made up 6%; Lapps accounted for 0.11%; Roma (Gypsy) for 0.12%; and

Tatars for 0.02%. Several societies have been established to foster the preservation of the Lappish language and culture.

## 9 LANGUAGES

From the early Middle Ages to 1809, Finland was part of the Kingdom of Sweden, and its official language was Swedish. Finnish did not become an official language until 1863. In 2002, 93.4% of the population was primarily Finnish-speaking, and 5.9% was primarily Swedish-speaking. Swedish-speaking Finns make up more than 95% of the population of the Åland Islands and Swedish-speaking majorities are also found in parts of Uudenmaan, Turun-Porin, and Vaasan provinces. Swedish, the second legal language, is given constitutional safeguards. Only a minority of individuals have another language as their mother tongue, principally Lapp, Russian, English, or German. Finnish belongs to the Finno-Ugric language group and is closely related to Estonian; more distantly to the Komi, Mari, and Udmurt languages spoken among those peoples living in Russia; and remotely to Hungarian.

## 10 RELIGIONS

Freedom of religion has been guaranteed since 1923. The Evangelical Lutheran Church and the Orthodox Church are considered state churches. As of 2002, about 86% of the inhabitants belong to the Evangelical Lutheran Church. As a state church, an elected Church Assembly makes legislative proposals to the Parliament, which can be approved or rejected, but not altered. Approximately 1% of the inhabitants, largely evacuees from the Karelian Isthmus, are members of the Orthodox Church in Finland. The church has three dioceses, in Helsinki, Karelia, and Oulu, and owes allegiance to the Ecumenical Patriarch of Constantinople. Other religious bodies, making up 1% of the population, include the Free Church, Jehovah's Witnesses, Adventists, Roman Catholics, Methodists, Mormons, Baptists, Swedish Lutherans, and Jews. About 12% of the population claim no religious affiliation.

## 11 TRANSPORTATION

In 2002 there were an estimated 77,831 km (48,364 mi) of roads, of which 49,789 km (30,939 mi) were paved, including 444 km (276 mi) of expressways. In 2001 registered motor vehicles included 1,935,000 passenger cars and 316,738 commercial vehicles.

There were 5,865 km (3,644 mi) of railway lines in operation in 2002, of which 99% were operated by the Finnish State Railways. In 2001, the merchant fleet had a combined GRT of 1,172,404; there were 98 vessels with a GRT of 1,000 or more. Import traffic is concentrated at Naantali, Helsinki, Kotka, and Turku, while the ports of Kotka, Hamina, Kemi, Oulu, and Rauma handle most exports. Icebreakers are used to maintain shipping lanes during winter months. More than 900 people were killed in September 1994 when the ferry *Estonia* sank in rough seas off the Finnish coast while sailing from Estonia to Sweden. In 2002 there were 6,675 km (4,148 mi) of navigable inland waterways, of which 3,700 km (2,300 mi) are suitable for steamers. An agreement was signed in Moscow on 27 September 1962 for the reopening of the important Saimaa Canal under Finnish control, one-half of the canal having been incorporated into the former USSR in 1947. After extensive reconditioning, the canal began operating in 1968.

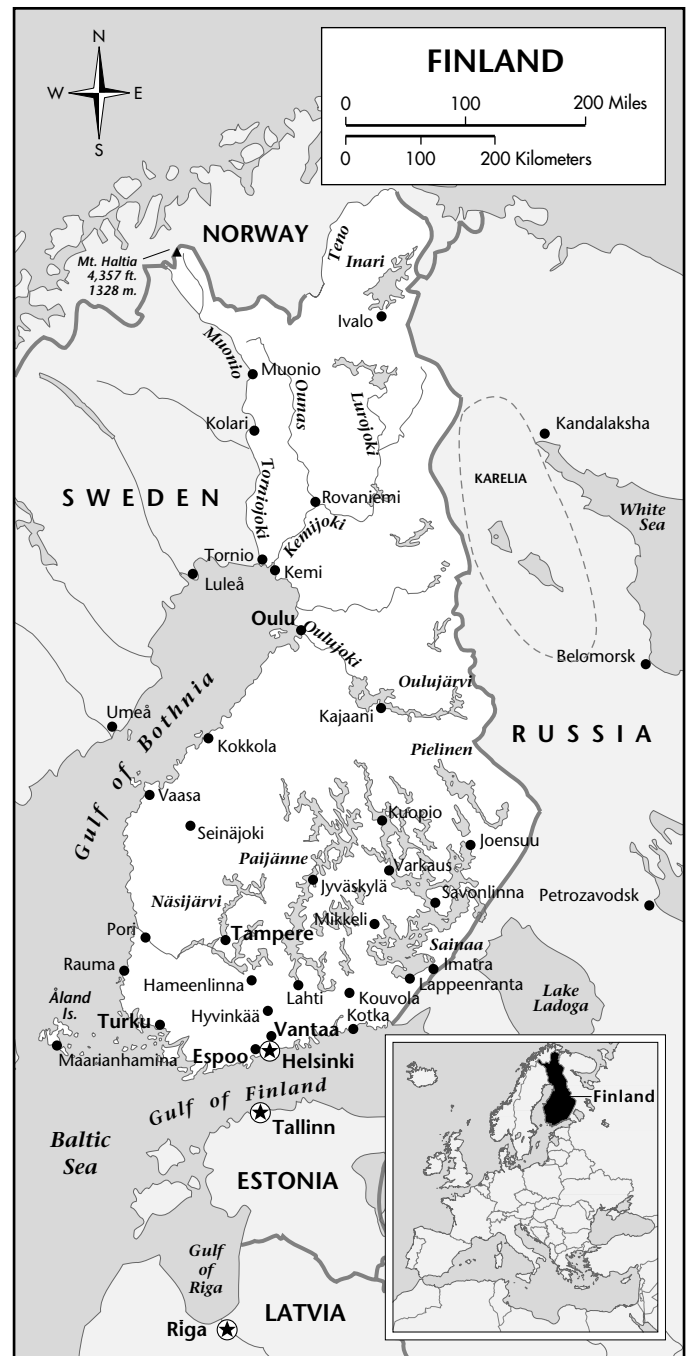
Airports numbered 160 in 2001, of which 74 had paved runways. Helsinki-Vantaa is the principal airport, located at Helsinki. State-run Finnair is engaged in civil air transport over domestic and international routes. In 1962, Finnair took over Kar-Air, the second-largest air carrier in Finland. In 2001 6,697,600 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Finland, a province and a grand duchy of the Swedish kingdom from the 1150s to 1809 and an autonomous grand duchy of Russia from 1809 until the Russian Revolution in 1917, has been an independent republic since 1917. Ancestors of present-day Finns—hunters, trappers, agriculturists—came to Finland by way of the Baltic regions during the first centuries AD, spreading slowly from south and west to east and north. Swedish control over Finnish territory was established gradually beginning in the 12th century in a number of religious crusades. By 1293, Swedish rule had extended as far east as Karelia (Karjala), with colonization by Swedes in the southwest and along the Gulf of Bothnia. As early as 1362, Finland as an eastern province of Sweden received the right to send representatives to the election of the Swedish king. On the basis of the Swedish constitution, Finland's four estates—nobles, clergy, burghers and peasant farmers—were also entitled to send representatives to the Diet in Stockholm. As a result of over six centuries of Swedish rule, Finnish political institutions and processes (marked by growing constitutionalism and self-government), economic life, and social order developed largely along Swedish lines. Swedish colonization in Finland was concentrated in the southern and western regions of Finland.

When Sweden was a great power in European politics in the 17th century, Finland and the Finns bore a heavy military burden. Finland was a battleground between the Swedes and Russia, whose encroachments on southeastern Sweden were persistent as Swedish power declined in the 18th century. After Sweden's military defeat in the Napoleonic wars of 1808–09, sovereignty over Finland was transferred to Russia from Sweden after Napoleon and Tsar Alexander I concluded the Peace of Tilsit. Under the Russian rule of Alexander I, Finland was granted a privileged autonomous status that enabled Finland to continue the grand duchy's constitutional heritage. Alexander I, like his successors, took a solemn oath to "confirm and ratify the Lutheran religion and fundamental laws of the land as well as the privileges and rights which each class and all the inhabitants have hitherto enjoyed according to the constitution." Toward the end of the 19th century, a Russian drive to destroy Finland's autonomy ushered in several decades of strained relations and galvanized the burgeoning nationalist movement. Culturally, the nationalist movement in Finland was split linguistically between the Fennomen who advocated Finnish language and culture and the Svecomen who promoted the continued dominance of Swedish. By the end of the 19th century, the Fennomen had gained the upper hand. In Russia's Revolution of 1905, Finland managed to extract concessions that included the creation of a modern, unicameral parliament with representatives elected through universal suffrage, including women. Thus, Finland was the first European country to offer women political suffrage at the national level. After the Bolshevik seizure of power in Russia in the late fall of 1917, Finland declared its independence on 6 December. A short civil war ensued (28 January–10 May 1918) between the Red faction supported by the Soviet Bolsheviks and the White faction supported by Germany. The White forces, led by General Mannerheim, were victorious, but Finland was forced to reorient its alliances toward the western allies when Germany was defeated in WWI.

In July 1919, Finland became a democratic parliamentary republic. In the nearly two decades of peace following the settlement of disputes with Sweden (over the Åland Islands) and the former USSR (East Karelia) there were noteworthy economic and social advances. Despite its neutral pro-Scandinavianism in the 1930s and support for the collective security provisions of the League of Nations, the country was unavoidably entangled in the worsening relations between the great powers. Negotiations with the former USSR, which demanded certain security provisions or



LOCATION: 59°30' 10" to 70°5' 30" N; 19°7' 3" to 31°35' 20" E. BOUNDARY LENGTHS: Russia, 1,313 kilometers (820 miles); Sweden, 586 kilometers (364 miles); Norway, 729 kilometers (445 miles); total coastline, 1,126 kilometers (694 miles). TERRITORIAL SEA LIMIT: 4 miles.

territorial concessions, broke down in 1939, and two wars with the USSR ensued. The Winter War, lasting from 30 November 1939 to 13 March 1940, ended only when Finland ceded areas of southeastern Finland and the outer islands of the Gulf of Finland to the Soviets. However, Finland watched warily as the Soviets annexed the independent Baltic states of Estonia, Latvia, and Lithuania. After appeals to western allies went unfulfilled, Finland turned toward Germany for protection, and when Germany attacked the USSR on 26 June 1941, Finland entered



the war on the German side. During the early part of the Continuation War, which lasted from 26 June 1941 to 19 September 1944, the Finns pushed the Soviets back to the old frontier lines and held that position for nearly three years. In 1944, a Russian counterattack forced Finland to ask for peace. The armistice terms of 1944, later confirmed by the Paris Peace Treaty of 10 February 1947, provided for cession of territory and payment of reparations to the Soviets and required Finland to expel the German troops on its soil; this resulted in German-Finnish hostilities from October 1944 to April 1945. Under the 1947 peace treaty Finland ceded some 12% of its territory to the USSR, imprisoned several prominent politicians, reduced its armed forces, and undertook to pay heavy economic reparations. A Soviet naval base was established only 25 km from Helsinki. A separate Treaty of Friendship, Cooperation, and Mutual Assistance, concluded in 1948 under heavy Soviet pressure, obligated Finland to resist attacks on itself or the USSR and in effect precluded Finland from undertaking any significant foreign policy initiative without the Kremlin's approval.

Finland's postwar policy, based on the Paasikivi Line named for the president that formulated the policy, has been termed dismissively as "Finlandization." It is true that Finland maintained a scrupulous and cautious policy of neutrality in foreign affairs. However, after 1955, when the Soviets withdrew from their Finnish base, Finland became an increasingly active member of the United Nations and the Nordic Council, as well as various Western economic organizations. Despite Soviet pressure, the Finnish Communist Party steadily declined in influence. Finland's standing was further enhanced by the signing of the 1975 Helsinki treaty, which called for pan-European cooperation in security, economic, political, and human rights matters. The dominant figure of postwar politics was Urho Kekkonen, the Agrarian (later Center) Party leader who held the presidency from 1956 to 1981, when he resigned because of ill health. The cornerstone of his policy was maintenance of a center-left coalition (including the Communists), good relations with the former USSR, and a foreign policy of "active neutrality."

Despite the negative connotations, "Finlandization" was something of a success. Unlike the Baltic states, Finland maintained sovereign independence and even managed to prosper in the post-WWII environment. Postwar political stability allowed a striking economic expansion and transformation in Finland. In 1950, nearly 70% of Finns worked on the land; now that figure is about 6%. Kekkonen's long rule ended in a resignation owing to ill health and the Social Democratic leader Mauno Koivisto, then prime minister, became acting president in October 1981. Koivisto was elected president in his own right in January 1982 and reelected in 1988.

Koivisto tenure as president ended in 1994. In the presidential elections of February 1994 when voters for the first time directly elected the president, Martti Ahtisaari, former UN mediator and of the Finnish Social Democratic Party, defeated Elisabeth Rehn (Defense Minister) of the Swedish People's Party in a runoff election. Ahtisaari chose not to run for reelection in 2000, and in that contest no fewer than five candidates for the presidency were women. On 6 February 2000, Finns elected their first female president, Tarja Halonen, the Social Democratic Foreign Minister in the Lipponen government, who won 51.6% of the vote in a runoff electoral contest with Esko Aho, leader of the Center Party.

Finland faced a deep recession brought about in part by the collapse of the Soviet market that accounted for 20% of Finnish exports. During 1991–94, the recession pushed unemployment up to nearly 20%. The collapse of the Soviet Union and the dissolution of the FCMA Treaty by mutual agreement of Finland and the USSR prompted Finland to reassess its relationship with Europe. In March 1994, Finland completed negotiations for membership in the EU. Finland's relationship with the EU was a

major issue of political debate even within the governing coalition. Following a referendum held in October 1994 with 57% approval, Finland formally joined the EU at the beginning of 1995. Finland also joined the European economic and monetary union in 1999, and adopted the euro as its currency in 2002. Beyond Finlandization: Finland and the European Union

While a relative newcomer to European politics, Finland entered the political limelight as they took over the six-month rotating presidency of the European Union in the second half of 1999. The priorities of the Finnish presidency included a number of pressing issues: preparing for institutional reform necessary prior to enlargement of the Union; increasing the transparency of the functioning of EU institutions; boosting employment and deepening the social dimension of European cooperation; environmental responsibility; and finally, in the area of foreign policy, the Finns championed the "Northern Dimension" which would extend a number of cooperative schemes to include the EU and non-EU countries along the Baltic, including increased ties with northwestern Russia. Though highly touted, this last initiative foundered as Europe continued to be preoccupied with the ongoing NATO efforts in Kosovo. At the presidency's concluding summit (December 1999) of the European Council in Helsinki, the Finns could nonetheless point to a number of successes under their presidency. The groundwork for opening accession negotiations with six more applicant countries from Eastern Europe and recognizing Turkey's applicant status were approved by the 15 heads of state. In addition, the European Council approved the establishment of a rapid reaction force outside the structure of NATO, which would allow Europe to have an independent capacity to react in areas in which NATO was not engaged. This was an important accomplishment for Finland, whose neutral status makes participation in NATO actions problematic. However, in recent years, Finland has considered NATO membership; its military policy calls for increased cooperation with and participation in NATO and EU-led operations, including NATO's "Partnership for Peace" program. The issue of Finland's support for the US-led war in Iraq that began on 19 March 2003 was a deciding factor in the 16 March parliamentary elections. Opposition leader Anneli Jäätteenmäki accused sitting Prime Minister Paavo Lipponen of moving Finland too close to the US position on the use of military force to disarm Iraq, and her party went on to win the elections, albeit by a slim majority. Finland donated 1.6 million euros for humanitarian aid in Iraq.

### 13 GOVERNMENT

Finland's republican constitution combines a parliamentary system with a strong presidency. Legislative powers are vested in the Eduskunta (parliament), a unicameral body established in 1906. Members of parliament are elected for four-year terms by proportional representation from 15 multi-member electoral districts under universal suffrage at age 18. Finland was the first country in Europe to grant suffrage to women in national elections (1906). After the 2003 elections nine parties are represented, but the five largest (and traditional) parties share 181 seats. The 1994 presidential election was the first direct presidential vote since the country gained independence in 1917. Previously voters selected slates of electors who then chose the president. Currently the president is elected directly in a two-stage vote. If no candidate gets a majority in the first round, a second round is held between the two candidates with the largest first round totals. The president is elected for a six-year term.

Finland's political system traditionally has been more like the French than most other European parliamentary democracies because of the division of executive power between the president and the prime minister. The president is the constitutionally designated head of state that appoints the cabinet, serves as commander-in-chief of the armed forces and, until recently, had

primary responsibility for foreign policy. Traditionally, Finnish presidents have been responsible for foreign policy and remained neutral on domestic issues. During the Cold War, Finnish presidents had a special role in reassuring the USSR of Finnish good intentions. The president serves as commander-in-chief, appoints the prime minister and cabinet as well as other high-ranking civil servants. The president previously had the power to dissolve the legislature and order new elections, initiate legislation, and issue decrees. The president could veto legislation by not signing a bill, but if the Eduskunta after a general election passed it again without amendment, it became law.

On 1 March 2000, a new Finnish constitution entered into force. The new constitution increases the power of the parliament in relation to the government (cabinet) and increases the power of the government in relation to the president. The power of the Finnish presidency has been circumscribed in rather dramatic fashion while the power of the prime minister has increased. In the past, the Finnish president had the right to intervene in the formation of the government and to dissolve a recalcitrant government. Under the new constitution, the president only formally appoints the prime minister and is bound by the decisions derived from negotiations among the parliamentary groups. Party leaders with the most seats in parliament select the prime minister, in a complex bargaining process. The president appoints other ministers on the recommendation of the prime minister. The president may accept the resignation of a government or minister only in the event of a vote of no confidence by the parliament. In addition, under the new constitution, the government is more responsible to the parliament. For instance, the government must submit its program to parliament immediately after being appointed so that the parliament may take a vote of confidence in the government. Foreign and security policy have become shared responsibilities between the president and the government, with the prime minister and foreign minister taking an active role in formulating a consensus approach to Finnish foreign policy. The government, not the president, now has responsibility over issues related to EU affairs, given the impact of much European law on domestic legislation. The parliament has created a "Grand Committee" to scrutinize EU matters and to ensure parliament's influence on EU decision-making.

Since 1945 no single party has ever held an absolute parliamentary majority, so all cabinet or governmental decisions involve coalitions. The cabinet is composed of the heads of government ministries and has as its primary responsibility the preparation of governmental budgets and legislation and the administration of public policies. The prime minister and cabinet serve only so long as they enjoy the support of a working majority in parliament, and there have been frequent changes of government.

Women are fairly well represented in both the executive and legislative branches of government in Finland. Women hold 38% of the seats in the 200-member Eduskunta and there were 8 women among the 18 cabinet members in 2003. Women have held top leadership positions, including Defense Minister (Elisabeth Rehn) and Foreign Minister (Tarja Halonen) and Speaker of Parliament. In February 2000, Finns elected Tarja Halonen their first female president. Anneli Jäätteenmäki was named prime minister following elections in March 2003.

## 14 POLITICAL PARTIES

Four major partisan groupings have dominated political life in Finland, although none commands a majority position among the electorate. The Finnish Social Democratic Party (Suomen Sosialidemokraattinen Puolue—SDP) was organized in 1899 but did not become a significant political force until 1907, following the modernization of the country's parliamentary structure. Swedish-speaking Socialists have their own league within the

SDP. The party's program is moderate, and its emphasis on the partial nationalization of the economy has in recent decades given way to support for improvement of the condition of wage earners through legislation. The SDP has generally worked closely with the trade union movement and has been a vigorous opponent of communism.

The Center Party (Keskusapuolue—KESK; until October 1965, the Agrarian League—Maalaisliitto) was organized in 1906. While initially a smallholders' party, it has won some support from middle and large landowners but virtually none from nonagricultural elements. In an effort to gain a larger following in urban areas, the party changed its name and revised its program in 1965. In February 1959, an Agrarian League splinter party, the Finnish Small Farmers' Party, was formed; in August 1966, it took the name Finnish Rural Party (Suomen Maaseudun Puolue—SMP). The Liberal People's Party (Liberaalinen Kansanpuolue—LKP) was formed in December 1965 as a result of the merger of the Finnish People's Party and the Liberal League; in 1982, the LKP merged with the KESK. Esko Aho, leader of the KESK, served as prime minister from 1991 to 1995.

The National Coalition Party (Kansallinen Kokoomus—KOK), also known as the Conservative Party, was established in 1918 as the successor to the conservative Old Finnish Party. Its program, described as "conservative middle-class," has traditionally emphasized the importance of private property, the established church, and the defense of the state.

The Finnish Christian League (Suomen Kristillinen Liitto—SKL), founded in 1958, was formed to counter the increasing trend toward secularization and is usually found on the political right with the KOK.

The Swedish People's Party (Svenska Folkpartiet—SFP), organized in 1906 as the successor to the Swedish Party, has stressed its bourgeois orientation and the need for protecting the common interests of Finland's Swedish-speaking population.

The Finnish People's Democratic League (Suomen Kansan Demokraattinen Liitto—SKDL) represents the extreme left. Emerging in 1944, and illegal before then, the SKDL was a union of the Finnish Communist Party (organized in 1918) and the Socialist Unity Party. The SKDL had urged close relations with the former USSR and the Communist bloc, but in recent years it has moderated its demands for the establishment of a "people's democracy" in Finland. In 1986, a minority group within the SKDL was expelled; for the 1987 elections, it established a front called the Democratic Alternative (DEVA). Following the collapse of the Soviet Union, the SKDL in May 1990 merged with other left parties to form the Left Alliance (Vasemmistoliitto—VL).

The Greens, an environmentalist alliance, won four seats in the Eduskunta in 1987, although they were not formally organized as a political party.

From the end of World War II until 1987, Finland was ruled by a changing center-left coalition of parties that included the SDP, KESK, SKDL, LKP, SFP, and SMP. The government formed on 30 April 1987 included seven members of the KOK, including the prime minister, Harri Holkeri; eight from the SDP; two from the SFP; and one from the SMP. Conservative gains in the 1987 election put non-Socialists in their strongest position in parliament in 50 years. Following the general election of March 1991, the Center Party led by Esko Aho emerged as the largest single party in parliament. A new four-party, center-right coalition was formed composed of the Center Party, the National Coalition Party, the Swedish People's Party, and the Finnish Christian League.

The victory by the SDP in the 1995 parliamentary elections ended the reign of the right-center coalition that held control during four years of economic stagnation. The SDP's leader, Paavo Lipponen, became Finland's new prime minister in April 1995. Lipponen fashioned a "rainbow coalition" following the

March 1995 elections that included the following: the Social Democratic Party (with Lipponen as Prime Minister), the National Coalition Party, the Left Alliance, the Swedish People's Party, and the Green League. In opposition were the Center Party, the Finnish Christian League, the Young Finns, the Ecology Party, the True Finns, and the Åland Island's Party representative.

The parliamentary election in 1999 reflected a mixture of discontent and continuity. A cooling economy (caused by Russia's economic collapse in 1998), the opposition's plans for radical tax cuts, and controversy about EU policies dominated the campaign. Opposition leader (and former prime minister) Aho promised radical tax and economic policy changes. He could govern only if he succeeded in prying the Conservatives out of Lipponen's coalition. SDP party scandals over privatization of the telecommunications sector and other issues threatened the otherwise impressive performance of the rainbow coalition that many thought would not survive the full parliamentary term.

The outcome of the 1999 elections was a setback for the Social Democrats, whose share of the votes declined from 28.3% in 1995 to 22.9% in 1999. The SDP parliamentary delegation declined from 63 to 51. The Conservatives advanced from 17.9% of the vote in 1995 (and 39 seats) to 21% in 1999 (and 46 seats). The three smaller coalition parties continued to share 42 seats among them. The opposition Centrists advanced modestly from 19.9 to 22.4% of the vote (gaining four seats for a total of 48). The SDP remained the largest parliamentary group, and Lipponen retained the right to renew his coalition, making it the longest-serving government in Finnish history.

The elections of 2003 were colored by disagreements between Lipponen's Social Democrats and the Center Party led by Anneli Jäätteenmäki. Jäätteenmäki accused Lipponen of closely aligning Finland with the US position on forcibly disarming Saddam Hussein's regime in Iraq. Jäätteenmäki's criticisms were popular with voters, and the Center Party emerged with 24.7% of the vote to take 55 seats in the Eduskunta. The representation of the other parties in parliament in 2003 was as follows: SDP, 22.9% (53 seats); KOK, 18.5% (40 seats); the Left Alliance, 9.9% (19 seats); the Greens, 8%, (14 seats); the Christian Democrats, 5.3% (7 seats); the People's Party, 4.6% (8 seats); the agrarian True Finns Party, 1.6% (3 seats); and the representative from the Åland Island's Party held one seat. Jäätteenmäki formed a coalition government with the Social Democratic Party and the Swedish People's Party.

## 15 LOCAL GOVERNMENT

There is an ancient and flourishing tradition of local self-government extending back to the 14th century. The present law on local government was enacted in 1976. There are 6 provinces (lääni), each headed by a governor appointed by the president. One of them, Ahvenanmaa (Åland Islands), has long enjoyed special status, including its own elected provincial council, and a statute effective 1 January 1952 enlarged the scope of its autonomy. The other provinces are directly responsible to the central government.

Below the provincial level, the local government units in 2003 included over 448 municipalities. Each local government unit is self-governing and has a popularly chosen council. Local elections are held every four years; being partisan in nature, they are regarded as political barometers. The councilors are unsalaried. Local administration is carried out under the supervision of council committees, but professional, full-time managers usually run day-to-day affairs. The functions of local government include education, social welfare, utilities, and collection of local taxes.

## 16 JUDICIAL SYSTEM

There are three levels of courts: local, appellate, and supreme. The municipal courts of the first instance are staffed in each case

by a magistrate and two councilors. Each of the 6 appellate courts is headed by a president and staffed by appellate judges. In certain criminal cases these courts have original jurisdiction. The final court of appeal, the Supreme Court (Korkein oikeus), sits in Helsinki. There are also the Supreme Administrative Court, a number of provincial administrative courts, and some special tribunals. The administration of justice is under the supervision of a chancellor of justice and a parliamentary ombudsman.

The judiciary is independent from the executive and legislative branches. Supreme Court Judges are appointed to permanent positions by the president and are independent of political control. They may retire at age 63; retirement is mandatory at age 67. Supreme Court Justices appoint the lower court judges.

Finland has a special office known as the Ombudsman that is common to most Nordic judicial systems. According to the constitution, an ombudsman is independent official elected by the parliament from the legal field who is charged with "overseeing the courts of law, other public authorities and public servants in the performance of their official duties as well as public employees and other persons in the exercise of public functions...In discharging his or her duties, the Parliamentary Ombudsman shall also oversee the implementation of Constitutional rights and international human rights." The Ombudsman and Deputy Ombudsman investigate complaints by citizens regarding the public authorities, conducts investigations, and may intervene in matters of his or her own initiative. This important institution assists citizens in navigating the often-Byzantine bureaucratic maze of the social welfare state and provides greater accountability and transparency in the enormous Finnish public sector.

## 17 ARMED FORCES

Total armed forces in Finland numbered 31,850 active personnel in 2002, with reserves amounting to some 485,000. The army had 24,550 personnel; the navy, 4,600; and the air force 2,700. About 500 women were in the armed forces. Equipment included 268 main battle tanks, and 63 combat aircraft. A paramilitary frontier guard numbered 3,100. Defense expenditures were \$1.8 billion in 1999 or about 2% of GDP. Finland provided observers and troops to 6 different peacekeeping operations in 2002.

## 18 INTERNATIONAL COOPERATION

Finland has been a UN member since 14 December 1955; it is also a member of the OECD, and joined the EU at the beginning of 1995.

Finland has actively participated in UN peacekeeping operations in Cyprus and in the Middle East on the Golan Heights between Israel and Syria, as a part of the UN forces there. Finnish officers have served in UN observer groups that police cease-fire lines in Kashmir and the Israeli-Egyptian border, and they have served in Bosnia and Herzegovina and Kosovo.

Finland participates in UN development activities and channels a substantial part of its development aid funds through the UN and other multilateral agencies. In addition, Finland plays a role in the African Development Bank and Asian Development Bank, and is involved in a number of bilateral projects, primarily in African countries.

Finland has a close relationship with the other Scandinavian (Nordic) countries. The main forum of cooperation is the Nordic Council, established in 1952; Finland joined in 1955. A common labor market was established in 1954, granting citizens of member states the right to stay and work in any other Scandinavian country without restrictions.

Finland became associated with EFTA in 1961. In 1967, tariffs and other barriers to trade between Finland and EFTA members were eliminated; in 1986, Finland became a full member of EFTA. By agreement, the former USSR enjoys the same tariff benefits from Finland as those accorded the EFTA countries. Tariffs on

most industrial goods from the EU have been phased out. In 1969, Finland joined the OECD; four years later, Finland became the first non-Communist country to sign a special agreement on economic and technical cooperation with CMEA.

Officially neutral, Finland seeks to maintain friendly relations with both the United States and the former USSR, its powerful eastern neighbor. Finland has hosted many major meetings and conferences, including rounds I, III, V, and VII of the Strategic Arms Limitation Talks (SALT) between the United States and USSR (1969–72). In November 1972, the multilateral consultations on the Conference on Security and Cooperation in Europe (CSCE, now the OSCE) began in Helsinki. These initial consultations were followed by the first phase of CSCE at the foreign ministerial level and then by the third phase at the highest political level, culminating with the signing of the Final Act in Helsinki on 1 August 1975. Foreign ministers of the United States, Canada, and 33 other European countries met in Helsinki on 30 July 1985 to commemorate the 10th anniversary of the signing of the Final Act.

## 19 ECONOMY

At the end of World War II, Finland's economy was in desperate straits. About 10% of the country's productive capacity had been lost to the former USSR, and over 400,000 evacuees had to be absorbed. Between 1944 and 1952, Finland was burdened with reparation payments to the USSR, rising inflation, and a large population growth. However, the GDP reached the prewar level by 1947, and since then the economy has shown consistent growth.

Handicapped by relatively poor soil, a severe northern climate, and lack of coal, oil, and most other mineral resources necessary for the development of heavy industry, the Finns have nonetheless been able to build a productive and diversified economy. This was made possible by unrivaled supplies of forests (Finland's "green gold") and waterpower resources ("white gold"), as well as by the Finnish disposition toward hard work, frugality, and ingenuity. Agriculture, long the traditional calling of the large majority of Finns, has been undergoing continuous improvement, with growing specialization in dairying and cattle breeding. The industries engaged in producing timber, wood products, paper, and pulp are highly developed, and these commodities continue to make up a significant proportion of the country's exports. After World War II, and partly in response to the demands of reparations payments, a metals industry was developed, its most important sectors being foundries and machine shops, shipyards, and engineering works. The 1990s saw Finland develop one of the world's leading high tech economies. Dependent on foreign sources for a considerable portion of its raw materials, fuels, and machinery, and on exports as a source of revenue, the Finnish economy is very sensitive to changes at the international level.

The annual growth of GDP averaged 4.3% between 1986 and 1989, after which it was hard hit by the collapse of the former USSR, formerly Finland's chief trading partner. For 40 years, Finland and the USSR had conducted trade on a barter basis, a practice that ended in 1991. GDP was flat in 1990, fell by 7.1% in 1991, a further 4% in 1992, and 3.6% in 1993.

The regional economic recovery in Europe during 1994 helped Finland's economy to turn around. By early 1995, the economy began to show signs of strong growth—GDP had grown 4.5% by the end of that year, and by 2000, it had reached 6.1%. In October 1996 Finland agreed to join the European currency grid, which limits currency fluctuations to 15% up or down, and proclaimed its determination to join European economic and monetary union (EMU), which it joined in 1999. Thus far, it is the only Nordic EU member to join, as Denmark and Sweden decided to opt out of the EMU.

The success of the Finnish economy in the late 1990s was largely due to the country's success in the high tech sector.

Finland had the highest per capita Internet connections and mobile phone ownership; in 2002, 75% of Finns owned a mobile phone. Chief among Finnish companies is Nokia, the world's leading producer of mobile phones.

In the early 2000s, the global economy was in a downturn, and Finland's economy was duly affected. Demand for Finnish exports declined, and industrial production shrank for the first time in 10 years. In 2001, Finland's GDP growth was among the lowest of the euro zone, at 0.7%, and unemployment remained above the euro zone average (9%). However, the service sector (accounting for over 60% of GDP) remained strong. In 2002, the government was running a budget surplus of around 3%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Finland's gross domestic product (GDP) was estimated at \$136.2 billion. The per capita GDP was estimated at \$26,200. The annual growth rate of GDP was estimated at 1.1%. The average inflation rate in 2002 was 1.9%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 4% of GDP, industry 34%, and services 62%.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$15,752. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 1%. Approximately 17% of household consumption was spent on food, 10% on fuel, 4% on health care, and 15% on education. The richest 10% of the population accounted for approximately 21.6% of household consumption and the poorest 10% approximately 4.2%.

## 21 LABOR

The labor force numbered 2.6 million in 2000. Of these workers, 32% were engaged in public services, 22% in industry, 14% in commerce, 10% in finance, insurance, and business service, 8% in agriculture and forestry, 8% in transport and communications, and 6% in construction. From the mid-1960s to the mid-1970s, the rate of unemployment fluctuated between 1.5% and 4% of the total workforce. Since then, however, the unemployment rate has crept upward, reaching 8.5% in 2002.

The law provides for the right to form and join unions. As of 2002, about 79% of workers were members of trade unions and employers' collective bargaining management associations. These unions are not regulated by the government or political parties. Labor relations are generally regulated by collective agreements, usually one or two years in duration. Disputes over their terms are heard by a labor court, the verdict of which is final. Although mediation of labor disputes is provided for by law, work stoppages have occurred.

Child labor regulations are strictly enforced by the labor ministry. The law does not mandate minimum wages as it is established by industry in collective bargaining negotiations. The workweek is legally set at 40 hours with five days of work. Health and safety standards are effectively enforced.

## 22 AGRICULTURE

Finnish farming is characterized by the relatively small proportion of arable land under cultivation, the large proportion of forestland, the small-sized landholdings, the close association of farming with forestry and stock raising, and the generally adverse climatic and soil conditions. Farming is concentrated in southwestern Finland; elsewhere, cultivation is set within the frame of the forest. In 2002, there were 74,328 farms. The

average farm had about 30 hectares (74 acres) of arable land. Small-sized farms were encouraged by a series of land reforms beginning with the Lex Kallio of 1922. The Land Use Act of 1958 sought to improve the conditions of existing farms by increasing the land area, amalgamating nonviable farms, and introducing new land-use patterns. The agricultural labor force was 8% of the economically active population in 2000. The same year, agriculture contributed 4% to GDP.

The principal crops in 2000 (in tons) were barley, 1,985,000; oats, 1,413,000; sugar beets, 1,046,000; potatoes, 785,000; and wheat, 538,000. A total of 2,126,000 hectares (5,253,000 acres) were classified as arable in 1998.

### 23 ANIMAL HUSBANDRY

Livestock production contributes about 70% of total agricultural income. Livestock in 2001 included cattle, 1,037,000 head; hogs, 1,261,000; sheep, 96,000; and horses, 59,000. There were 5,400,000 poultry that same year. Some 350,000 reindeer are used by the Lapps as draft animals and for meat.

In recent years, Finland has attained exportable surpluses in some dairy and meat products. Estimated production in 2001 included pork, 176,000 tons; beef, 90,000 tons; eggs, 56,500 tons; butter, 53,800 tons; and cheese, 97,800 tons. Milk production in 2001 was estimated at 2,456,000 tons.

### 24 FISHING

At the beginning of 1996, the Finnish fishing fleet consisted of 3,798 vessels with 22,509 GRT. The total catch in 2000 was 162,906 tons and exports of fishery commodities totaled \$17 million. The most important catch is Atlantic herring, with 23,149 tons caught in 2000. Other important species are rainbow trout, perch, pike, salmon, and cod.

### 25 FORESTRY

Forestry in Finland has been controlled since the 17th century. Since 1928, the government has emphasized a policy of sustainable yields, with production reflecting timber growth. The forest area covered 21.9 million hectares (54.2 million acres), or about 72% of the total land area, in 2000. The total growing stock is around 2.0 billion cu m (71 billion cu ft), and the annual increment is estimated at 78 million cu m (2.75 billion cu ft). The most important varieties are pine (45% of the total growing stock), spruce (37%), birch, aspen, and alder. About 70% of the productive woodland is privately owned (in 430,000 holdings); 20% is owned by the state; the remainder is owned by companies, communes, and religious bodies. There are 10 major sawmills in Finland with a combined capacity of 8,000 cu m (282,000 cu ft) per year. Numerous small sawmills serve local markets.

In 2000, the roundwood harvest was estimated at 54.3 million cu m (1.9 billion cu ft), of which 13.4 million cu m (473 million cu ft) were processed as sawnwood, 12.5 million cu m (441 million cu ft) as wood pulp, and 4.1 million cu m (145 million cu ft) as firewood. Over 70% of annual Finnish forestry output is exported, including 90% of all printing paper and 35% of all particleboard produced. Over 80% of forestry product exports are sent elsewhere in Europe; Finland supplies Europe with about 10% of its demand. In 2001, exports of forestry products were valued at nearly \$10.9 billion.

In 1999, Finland launched its National Forest Program 2010. The goal of the program is to raise industrial roundwood production to 63–68 million cu m (2.2–2.4 billion cu ft) while adhering to ecosystem management principles.

### 26 MINING

For the metals industry, a key sector of its industrialized market economy, Finland depended on imports of raw materials, especially crude oil, iron ore, nickel matte, petroleum products, and zinc concentrate. Copper refining and metals production constituted a major mineral industry, with most output destined for export. Outokumpu Oyj was the third-largest zinc metal producer in Europe (15% share of the market and 5% share of world zinc production). In 2001, Finland mined chromite, foundry sand, copper, nickel, zinc, feldspar, lime, nitrogen, phosphate rock, pyrite, sodium sulfate, limestone, dolomite, granite, quartz silica sand, soapstone, sulfur, talc, and wollastonite. Mondo Minerals Oy was the largest producer of paper-grade talc in Europe, with an annual capacity of 500,000 tons from its three mines. The Kemi mine, on the Gulf of Bothnia near the Swedish border, was the only chromium mine in Scandinavia and one of the largest in the world, with estimated reserves of 150 million tons and an annual capacity of 1 million tons. Mine output of zinc in 2001 was 36,253 tons, up from 20,000 in 1999; feldspar, 34,298 tons, down from 40,000 in 1999; chromite (gross weight of ore, concentrate, and foundry sand), 575,000 tons, down from 630,000 in 2000; and copper (mine output), 41,146 tons, up from 10,500 in 1999. Exploration activities were focused largely on diamond, gold, and base metals deposits (sulfide zinc, zinc, copper, chalcopyrite, pyrite, sphalerite, and platinum-group metals, or PGM). An updated estimate for the Ahmavaara and Konttijarvi PGM deposits showed that 75,000 kg were proven resources and 728,000 kg was probable, at a cutoff grade of 0.5 grams per ton of platinum, palladium, and gold. A continuing drilling program at the Suurikuusikko gold property, in the Lapland greenstone belt, yielded an estimate of contained indicated and inferred resources of 6 million tons at an average grade of 6 grams per ton of gold. The Pyhäsalmi zinc-copper mine, in central Finland, had proven and probable reserves totaling 17.2 million tons at a grade of 1.2% copper, 2.8% zinc, 0.4 grams per ton of gold, and 39% sulfur; the mine, which was sold by Outokumpu to Inmet Mining Corp. of Canada, could produce until 2015 at its 2001 production rate of 1.2 million tons per year. Finland also had capacities to mine mica, phosphate-apatite, quartz, and quartzite, and to mine and produce 8 million tons per year of apatite.

Mineral reserves were declining, and many were expected to be exhausted soon, as a result of extensive mining over the past 400 years. A decision was to be made in 2001 about closure of the Hitura nickel mine, supplier of nickel concentrates for 30 years. Although Finland had scarce mineral resources, it was influential in the global mining industry as a world leader in mining technology, ore processing, and metallurgy. With the acquisition of the metallurgical businesses of Lurgi Metallurgie AG of Germany, Outokumpu Technology became the world's leading supplier of copper and zinc plants, a major supplier of aluminum technologies, and the key supplier of innovative technologies for the ferrous metals and ferroalloy industries. Government involvement in the mineral industry was considerably higher in Finland than elsewhere in the EU. State-owned companies such as Finnminers Group, Kemira Oyj, Outokumpu, and Rautaruukki Oy dominated the domestic minerals industry, while institutions such as the State Geological Research Institute and the State Technological Research Center were active in exploration and research.

### 27 ENERGY AND POWER

During the period 1945–62, consumption of electric energy increased about 8.7% per year, largely from expansion of the energy-intensive wood-processing industry and the comprehensive electrification of rural areas. Production of electric energy rose from 6,600 million kWh in 1956 (of which

5,139 million kWh came from waterpower) to 75,356 million kWh in 2000 (about 19% from water power, 28% from nuclear power, 40% from fossil fuels, and the remainder from other sources). Consumption of electricity was 82 billion kWh in 2000. Finland's total installed capacity in 2001 was 16.2 million kW. Finland has four nuclear power plants, two 465-MW reactors at the Loviisa plant and two 735-MW reactors at the Tvo facility. Most of Finland's waterpower resources are located along the Oulu and Kemi rivers.

Finland has no fossil fuel reserves of its own. Oil—all imported—accounted for 32% of the energy consumed in 2000.

## 28 INDUSTRY

Since the end of World War II, industrial progress has been noteworthy. Contributing factors include the forced stimulus of reparation payments, large quantities of available electric power, increased mining operations, growing mechanization of agriculture and forestry, development of transportation and communications, and steady foreign demand for Finnish exports. In terms of value of production and size of labor force, the metals industry is the most important, accounting for 26% of industrial employment (including power industries, mining, and quarrying) in 1998. The metals industry grew 22.5% in 2000 from 1999, faster than any other industrial sector. Also highly significant are the food, pulp and paper, machinery, chemical, and electrical products and instruments industries. In recent years impressive growth has been registered by the electronics industry, which accounted for 20% of industrial employment in 1999. The most important industrial regions center around Helsinki, Tampere, Turku, Lappeenranta, Lahti, Jyväskylä, and the valleys of the Kymi and Kokemäki rivers, and coastal towns like Kotka, Rauma, and Pori. The state owns a majority of the outstanding stock in many industrial companies.

Manufacturing production grew 13% in 2000. Industry as a whole accounted for 34% of GDP in 2002, and employed 22% of the labor force. Finland was the world's leader in the making of cellular telephones, paper machinery, medical devices, and instruments for environmental measurements. Nokia, the largest company in the country, produces the most mobile telephones in the world. Finland produced 42,320 automobiles in 2001, an increase of 9% over 2000. Biotechnology is an increasingly important sector, with strength in pharmaceuticals, biomaterials, diagnostics, and industrial enzymes. Finland is the eighth largest producer of ships in the world, and although the number of shipyards had declined in 2002, the industry employed 30,000 Finns.

## 29 SCIENCE AND TECHNOLOGY

Scientific research is carried out at state research institutes, private research centers, and institutions of higher learning. The Technology Development Center, established in 1983 under the Ministry of Trade and Industry, oversees technological research and coordinates international research activities. The Academy of Finland (founded in 1947), a central governmental organ for research administration, reports directly to the Ministry of Education. It promotes scientific research and develops national science policy by maintaining research fellowships, sponsoring projects, and publishing reports. In 1987–97, expenditure on research and development totaled 2.8% of GNP. Business enterprises, including those in which the central or local government owns major shares, finance more than half of the nation's research. In 1987–97 there were 2,799 scientists and engineers and 1,996 technicians per million people engaged in research and experimental development. The principal learned societies, all in Helsinki, are the Federation of Finnish Scientific Societies (founded in 1899), the Finnish Academy of Science and Letters (founded in 1908), and the Finnish Society of Sciences and Letters (founded in 1838); preeminent in technological

development is the Finnish Technical Research Center (founded in 1942) at Espoo. In 1998, high-tech exports were valued at \$8.1 billion and accounted for 22% of manufactured exports.

Finland has 13 universities offering courses in basic and applied sciences. The University of Helsinki operates a natural history museum that has zoological, botanical, and geological components. In 1987–97, science and engineering students accounted for 39% of university enrollment.

## 30 DOMESTIC TRADE

Domestic trade is carried on through the customary wholesale and retail channels. Wholesale trade is concentrated in the following groups: the Finnish Wholesalers and Importers Association and its customers; Kesko, a central marketing association controlled by rural retailers; the cooperative wholesalers SOK and OTK; producer cooperative wholesalers such as Valio and Hankkija; and specialized wholesalers such as the Central Federation of Technical Wholesalers, an association of importers.

Office hours are from 8 AM to 4:30 PM, Mondays through Fridays; government offices are open from 8 AM to 4 PM (3 PM in summer). Stores and shops are open from 9 AM to 6 PM, Monday through Friday, and 9 AM to 4 PM on Saturday. Summer hours are a little shorter.

There is growing acceptance of modern advertising techniques. Television advertising is sold by a state-licensed company; there is no commercial radio. Advertising of tobacco products and alcoholic beverages is prohibited, and promotion of food products, vitamins, and pharmaceuticals is strictly supervised.

## 31 FOREIGN TRADE

In 1996, the metals, engineering, and electronics industries accounted for 58% of all exports; the forestry industry, 27%; the chemical industry, 10%; and others, 5%. Finland is a major producer of paper and paperboard, and accounts for a large percentage of the world export market (10.7%). Other important exports include telecommunications equipment (21.3%), iron (4.2%), and ships (2.3%).

In 2000 Finland's imports were distributed among the following categories:

Consumer goods	13.1%
Food	4.7%
Fuels	11.8%
Industrial supplies	26.1%
Machinery	31.2%
Transportation	10.6%
Other	2.4%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	5,548	4,813	735
Sweden	4,133	3,491	642
United States	3,350	2,398	952
United Kingdom	4,052	2,186	1,866
France	2,283	1,306	977
Italy	1,937	1,083	854
Russia	1,936	3,165	-1,229
China (inc. Hong Kong)	1,778	1,015	763
Netherlands	1,725	1,296	429
Norway	1,161	1,297	136

## 32 BALANCE OF PAYMENTS

The trade surplus reached a new record in 2000, totaling \$13.3 billion, and the ratio of the trade account surplus to GDP rose 10.9%. The interest-bearing net foreign debt decreased in 2000, reaching a low level in June 2000 of \$6.5 billion.

Finnish households and businesses became more cautious in spending, due to the deep recession in the early 1990s and the slowdown in the global economy that began in 2001. Nonetheless, the financial health of Finnish companies improved in the late 1990s and into the 2000s, and private consumption was forecast to increase by 3.5% in 2000. Investment outflows exceed direct investment in Finland; foreigners are more interested in portfolio investments. Some changes in taxes, the promotion of Finland as a gateway for Russian markets, and the country's membership in the EU might attract foreign investment, however.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Finland's exports was \$40.1 billion while imports totaled \$31.8 billion resulting in a trade surplus of \$8.3 billion.

The International Monetary Fund (IMF) reports that in 2001 Finland had exports of goods totaling \$43 billion and imports totaling \$30.2 billion. The services credit totaled \$5.8 billion and debit \$8.2 billion. The following table summarizes Finland's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>8,357</b>
Balance on goods	12,657
Balance on services	-2,425
Balance on income	-1,192
Current transfers	-684
<b>Capital Account</b>	<b>65</b>
<b>Financial Account</b>	<b>-10,973</b>
Direct investment abroad	-8,363
Direct investment in Finland	3,427
Portfolio investment assets	-11,594
Portfolio investment liabilities	5,985
Other investment assets	-10,118
Other investment liabilities	9,652
<b>Net Errors and Omissions</b>	<b>2,956</b>
<b>Reserves and Related Items</b>	<b>-405</b>

### 33 BANKING AND SECURITIES

The central bank is the Bank of Finland—the fourth oldest in Europe—established in 1811, with headquarters in Helsinki and seven branch offices. Possessing extensive autonomy though subject to parliamentary supervision, and endowed with extensive monetary and fiscal powers, the Bank is administered by a six-member board of management appointed by the president of the republic. It has an exclusive monopoly over the issuance of notes. Completing its preparations for Economic and Monetary Union (EMU), on 17 January 1997 the government submitted to the Eduskunta a proposal for a new Act of the Bank of Finland. The main purpose of the act was to prepare the Bank of Finland institutionally for Stage 3 of EMU by providing for its independence ahead of the move to a single currency, in line with the requirements set out in the Maastricht treaty.

As of 1999, leading deposit banks in Finland included: Nordea (Merita Nordbanken, the result of a merger between Merita and Swedish Nordbanken, Danish Unidanmark, and Norwegian Christiania Bank); OKO Bank (the Cooperative Bank Group, the first bank in the world to offer online banking transaction services, in 1996); and the Sampo Group (the result of a merger between Sampo Insurance Company and the Leonia bank group. Eight major commercial banks and forty savings banks serve the country. Six foreign banks have branches in Finland.

In 1996 the markka stayed firm against the German mark. In the fourth quarter of 1996 Finland's three-month money-market rate, the Helibor, fell by nearly 40 basis points, from 3.48% to just 3.09%. The fall resulted in further convergence with German money-market rates. The International Monetary Fund reports

that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$37.3 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$59.8 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.26%.

An exchange at Helsinki (established in 1912) is authorized to deal in stocks. Stock prices have risen sharply since 1992, and in 1996 the Helsinki Stock Exchange (HEX) recorded a strong performance. In December 1996 the HEX all-share index stood 38.3% higher than in the year-earlier period, making Helsinki one of the most buoyant stock exchanges in the developed world. The exchange's performance was driven by strong gains in sectors such as insurance (up 58% year on year) and metal engineering (up 35%). However, at the end of 2002, the index lost about 34% of its value since the past year, marking the third consecutive year of declining values.

### 34 INSURANCE

Insurance in Finland is highly developed and diversified. There are 56 Finnish insurance companies, 16 of them engaged in life insurance. In 1990, premium income amounted to \$US1,901 per capita, or 6.5% of the GDP.

In 1994, life insurance in force totaled M85.6 billion. Workers' compensation, hunter's liability, workers' pension, nuclear liability, shipowners' liability, employers' liability and automobile third-party insurance are compulsory. Other forms of insurance include fire, burglary, water damage, maritime, funeral, livestock, fidelity guarantee, and credit.

The leading troika of nonlife insurance firms in Finland is comprised of Sampo (33% market share), Pohjola (24%), and Tapiola (13%), as of 1996. The Federation of Finnish Insurance Companies calculated that in 1995 the rate for nonlife insurer's assets declined by M900 million. In 1995, premium income from life assurance was up by 45% and voluntary pension insurance by over 30%. In 1996, Finnish households had an estimated M200 billion lying idle in bank accounts and voluntary pension insurance accounts for only about M30 billion.

### 35 PUBLIC FINANCE

Budget estimates are prepared by the Ministry of Finance and submitted to the legislature. They are referred to the finance committee and subsequently reported back to the full body. Supplementary budgets are usual.

Finland's budget balance continued its sharp deterioration in 1992, as the deep recession resulted in decreased tax revenues and increased social expenditures. Extensive government support for the fragile banking system and increased interest expenditures were also responsible. The rest of the 1990s, however, proved much more auspicious for the fast-growing Finnish economy. GDP grew 5.6% in 2000, fueled by a booming electronics industry.

The US Central Intelligence Agency (CIA) estimates that in 2000 Finland's central government took in revenues of approximately \$36.1 billion and had expenditures of \$31 billion. Overall, the government registered a surplus of approximately \$5.1 billion. External debt totaled \$30 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	36,100
Tax revenue	84.6%	30,553
Non-tax revenue	12.9%	4,640
Capital revenue	0.2%	60
Grants	2.3%	847
EXPENDITURES	98.3%	31,000
General public services	5.6%	1,729
Defense	4.5%	1,386
Public order and safety	3.0%	919
Education	10.4%	3,217
Health	3.3%	1,026
Social security	36.4%	11,280
Housing and community amenities	2.9%	886
Recreation, cultural, and religious affairs	1.0%	322
Economic affairs and services	16.3%	5,062
Other expenditures	3.0%	924
Interest payments	13.7%	4,247

### 36 TAXATION

The corporate income tax rate is 29%, which is also the capital gains tax rate. Branches of foreign companies are taxed equally. The Lutheran church and the Orthodox church receive a share of the corporate tax. Withholding taxes, reduced or eliminated through double taxation treaties which Finland has with about 60 countries, are otherwise 25% on dividends, 29% for interest income to residents and on income from royalties, 35% on a foreign resident's salary, and 15% on payments to visiting artists and sports figures.

Personal income taxes are assessed in a progressive schedule with seven brackets, counting the 0% bracket which covers annual income up to about \$8,000. The other brackets in 2002 ranged from 5.5% to 38%, with highest rate for annual income increments above \$53,000. Local income taxes vary from 15.5% to 19.75% of income. Also at the municipal level is a religious tax with proportional rates ranging from 1% to 2.25% of taxable income. Other direct taxes include a wealth tax, a tax on the transfer of property assets (4.1%), and a tax on transfers of movable assets (1.6%).

Main indirect tax is a value-added tax (VAT) with multiple rates introduced in January 1994. The standard rate is 22%. A 0% rate applies to newspaper and magazine subscriptions; printing services; sale, charter, and maintenance of vessels and aircraft; and the supply of gold to the Central Bank. A reduced rate of 5.5% is charged on basic foodstuffs, water supply; medical equipment for disabled, public transportation; agricultural inputs; and hotel accommodations, as well as some pharmaceutical products, books, entertainment, social housing; medical and dental care, and waste disposal. There is also an intermediate rate of 19.6% applied in many of these categories.

### 37 CUSTOMS AND DUTIES

Finland, as a member of the European Union, allows imports from EU and EFTA countries to enter duty-free. Finland is also a part of the European Economic Area, an agreement that eliminates trade barriers in Europe. Because it is a member of the European Union, Finland complies with trade agreements the EU has made with non-EU countries. Customs duties are levied based on the goods' CIF value (cost, insurance, and freight) at the time and place of importation. Finland also collects a value-added tax (VAT) on most goods and services that can range from 0-28%. Some items, however, such as health care, insurance, and education, are exempt from the VAT.

### 38 FOREIGN INVESTMENT

The government and the Bank of Finland are favorably disposed toward foreign investment and there generally is no ban on wholly foreign-owned enterprises. Regulations have been

liberalized over the years and are generously interpreted. Repatriation of capital and remittance of dividends require notification to the Bank of Finland. A commission for foreign investments has been established, subordinate to the Ministry of Trade and Industry.

By international standards, the amount of direct investment in Finland was relatively modest. From 1988 to 1990 its share of world foreign direct investment (FDI) was only half of its share of world GDP. In terms of overall attractiveness as a foreign investment destination, Finland was ranked sixth out of the 140 countries in UNCTAD's study of inward FDI potential. In the 1990s, this potential has been more fully realized as foreign investments increased steadily. In the period 1998 to 2000, Finland's share of (FDI) flows grew to be almost twice its share of world GDP. It has continued to be ranked sixth in overall attractiveness for foreign investment. In 2002, for the second year in a row, Finland was ranked by Transparency International as the least corrupt country in the world.

Annual FDI inflow peaked at over \$12 billion in 1998, up from \$2.1 billion in 1997. FDI inflow fell to \$4.6 billion in 1999, but increased to \$8.8 billion in 2000. In the global slowdown of 2001, FDI inflow to Finland fell to \$3.6 billion. Most investment comes from Sweden, the United Kingdom, the United States, Germany, and France.

Finnish investment abroad is in the form of long-term export credits and direct investment by private companies

### 39 ECONOMIC DEVELOPMENT

Over a decade after the end of the Cold War, Finland has entered a new phase in its economic development. After a three-year recession in which Finnish reeled from the collapse of the Soviet market, Finland rebounded by shifting its economic sights westward. The successful development of high tech industries has placed Finland in the forefront of the communications boom. This factor, combined with European Union (EU) membership, has radically altered Finland's economic significance.

The unemployment rate in 2001 remained above the EU average, and gross domestic product (GDP) growth stalled, due in part to the world economic downturn and reduced exports. Finland's educational system is one of the best among Organization for Economic Cooperation and Development countries, and its highly developed welfare state allowed the country to convert easily to the euro. Early retirement has depressed the labor supply, however, and the population is aging rapidly. This could lower potential economic growth in the future. Finland's 2003 budget planned tax cuts of 0.5% of GDP and increased expenditures by 4%, transforming a budget surplus into a deficit of 0.2% of GDP. Pension reform was enacted in 2002.

### 40 SOCIAL DEVELOPMENT

Social welfare legislation in Finland is patterned largely on Scandinavian models. The system has evolved gradually in response to social needs. Major benefits include employees' accident insurance, old age and disability pensions, unemployment insurance, sickness insurance, compensation for war invalids, and family and child allowances. Family allowance payments are based on number of children and marital status of the parents. There are also birth grants, and child home care allowances for parents who stay home to care for a child under age three. A universal pension system currently covers all Finnish citizens who have lived in the country for at least three years and foreign nationals with at least five years' residence. Payments begin at age 65.

Women have a high level of education and hold a large number of elective political posts. Finland has a comprehensive equal rights law. However, women seldom hold high-paying



management positions in the private sector, and it was estimated in 2002 that women earn on average only 82 cents for every dollar that a male earns. Although there is a violence against women, the government takes actions to combat it. There are strict criminal penalties for violence against women, and there are many shelters and programs to assist victims.

Indigenous Sami (Lapps) receive government subsidies which enable them to maintain their traditional reindeer herding lifestyle. Minorities' rights and culture are traditionally protected by law. However, increasing hostility toward immigrants in recent years prompted the passage of a new law designed to facilitate the integration of immigrants into Finnish society and the granting of political asylum.

#### 41 HEALTH

In Finland, the local authorities are responsible for the majority of health services. The entire population is covered by health insurance, which includes compensation for lost earnings and treatment cost. This program is run by the Social Insurance Institution and is supplemented by private services. In 1991, a new Private Health Care Act took effect to enhance the quality of services provided.

In 1989, there were 7,067 pharmacists; in 1990, there were 49,861 nurses, 34,212 practical nurses, and 6,232 physical therapists. In 1991 there were 539 midwives. Between 1990 and 1997, Finland had approximately 4,545 dentists and a nurse-to-doctor ratio of 4 to 3. In 1990, there were an estimated 440 hospitals (including 57 mental facilities and 40 private institutions) with just over 67,000 total beds. This number declined by around one-third during the 1990s. The average length of a hospital stay decreased by about 40%. As of 1999, there were an estimated 3.1 physicians and 7.5 hospital beds per 1,000 people.

Health care, safe water, and sanitation are available to 100% of the population. As of 1999, an estimated 6.8% of the GDP went to health expenditures. In the same year, roughly 43% of all health care funding came from municipalities, 18% from states, 15% from the national insurance program, and about 24% from private sources.

From 1980 to 1993, 80% of married women (ages 15 to 49) were using contraceptives. The fertility rate was 1.7 children per woman throughout her childbearing years in 1999. In 1997, one-year-old children were vaccinated against the following diseases: diphtheria, pertussis, and tetanus, 100%; polio, 99%; and measles, 98%. In 1999, there were 12 cases of tuberculosis per 100,000 people. Also as of 1999, the number of people living with HIV/AIDS was estimated at 1,100 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.03 per 100 adults.

The death rate was 9.7 per 1,000 in 1999 and the infant mortality rate was 4 per 1,000, one of the world's lowest. Heart disease among men is high relative to other European countries and diseases of the circulatory system causes about half of all deaths in the country, with cancer being the second leading cause of death. The likelihood of dying after age 65 from heart disease was 366 per 1000 men and 351 per 1000 women in 1990-93. There were 22,827 deaths from cardiovascular disease in 1994. Life expectancy in 2000 was 77 years.

While female health is good by international standards, male mortality in the over-25 age bracket is much higher in Finland than in most industrial countries. The main reason for the excessive male death rate is cardiovascular disease. In 1994, 27% of men and 10% of women smoked. Tobacco consumption decreased from 1.7 kg (3.7 lbs) in 1984-86 to 1.5 kg (3.3 lbs) a year per adult in 1995. There were 231 cases of AIDS in 1996. As of 1999, the number of people living with HIV/AIDS was estimated at 1,100 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.05 per 100

adults. There has been an increase in suicide among young men. Alcohol-related problems are also on the increase.

In 1994, Finland became the first country to eradicate indigenous cases of measles, German measles, and mumps. The diseases have disappeared except for a small number of cases brought in from abroad.

#### 42 HOUSING

At the end of World War II, Finland faced a critical housing shortage. About 14,000 dwellings had been severely damaged during the war; only a modest amount of new housing had been built from 1939 to 1944. Some 112,000 dwellings were lost to the ceded territories, and homes had to be found for the displaced persons. Government participation was inevitable in this situation. Two measures passed in the late 1940s, the Land Acquisition Act and the Arava Law, made large-scale credit available on reasonable terms. During 1949-59, a total of 334,000 dwellings were built, including 141,900 supported by the Land Acquisition Act and 89,400 supported by the Arava Law.

The migration into urban centers that continued throughout the 1950s and 1960s resulted in a constant urban housing shortage even after the war losses had been replaced. During 1960-65, the number of new dwellings averaged about 37,000 annually. To stimulate housing construction, the government passed the Housing Act in 1966 providing for increased government support. As a result of this Act, the number of new dwellings supported by government loans rose rapidly. During 1966-74, a total of 466,900 dwellings were completed, of which 214,700 were supported by government loans.

From 1974 through 1985, another 558,000 new units were added to the housing stock. In 1991, 51,803 new dwellings were completed, down from 65,397 in 1990. The total number of dwellings in 2000 was 2,512,442. About 40% are detached homes; 43% are apartments/flats. Most households have between one and four people.

#### 43 EDUCATION

Elementary teaching remained under the direction and inspection of the Evangelical National Lutheran Church until 1921 when the Compulsory Education Act was passed, providing for nationwide compulsory public education by 1937. A new Primary School Act came into force in 1958. The Act on the Principles of the School System, issued in 1968, and a decree issued in 1970 further transformed the educational system.

Higher education falls into three categories: universities and institutions of university status; people's high schools or colleges; and workers' academies. Entrance to the universities is through annual matriculation examinations. There were 13 universities and 12 colleges and institutes in 1991. Among the best known are the University of Helsinki (founded 1640), Turku University (founded 1922), the Helsinki School of Economics, and the University of Tampere. University study is free of charge. In 1997, all institutions of higher learning enrolled a combined total of 226,458 students. The new school system unites the primary school and lower secondary school into a compulsory nine-year comprehensive school, with a six-year lower level and a three-year upper level. Instruction is uniform at the lower level. At the upper one, there are both required and elective courses. The upper secondary school (gymnasium) and vocational schools have also been reformed, with enrollments expanding year by year. In 1997, 3,766 primary schools enrolled 380,932 students and employed 21,459 teachers. In the same year, secondary schools had 469,933 pupils and 26,457 teachers. The pupil-teacher ratio at the primary level was 16 to 1 in 1999. In the same year, 100% of primary-school-age children were enrolled in school, while 95% of those eligible attended secondary school. Virtually all adults are literate.

People's high schools and workers' academies are evidence of the widespread interest in popular or adult education. Although they are owned by private foundations or organizations, these ventures also receive state subsidies.

In the latter half of the 1990s, the government allocated approximately 12.2% of its annual budget to education. As of 1995, public expenditure on education was estimated at 7% of GDP.

#### 44 LIBRARIES AND MUSEUMS

The largest library in Finland is the Helsinki University Library, with 2.6 million volumes in 2002; it acts both as the general library of the university and as the national library. Next in size are the Helsinki City Library (1.76 million volumes) and the libraries at Turku University (1.9 million) and Åbo Academy (1.7 million). There are about 400 research and university libraries in Finland, most of which are small. In 1997 there were 436 central public libraries and 1,202 branch libraries.

The number of museums has grown rapidly since World War II. There are over 200 museums and 19,100 monuments and historic sites throughout the country. Many museums are open-air, depicting local or rural history, which are accessible only from May to September. Among the better-known museums are the National, Mannerheim, and Municipal museums and the Ateneum Art Museum in Helsinki; the Turku Art Museum and Provincial Museum; the Runeberg Museum at Porvoo; and the outdoor museums at Helsinki and Turku.

#### 45 MEDIA

Telephone lines are both state and privately owned, but long-distance service is a state monopoly. In 1997 there were 2.8 million main line telephones in use with an additional 2.1 million mobile cellular phones. Broadcasting is run by Oy Yleisradio Ab, a joint-stock company of which the government owns over 90%, and MTV, a commercial company. Regular television transmission began in 1958. As of 1999 there were 6 AM and 105 FM radio stations and 120 television stations. In 2000, the number of radios was estimated at 1,623 per 1,000 people and the number of television sets at 692. The same year, there were about 396 personal computers for every 1,000 people, with 23 Internet service providers serving 2.27 million customers.

In 2001, there were about 256 newspapers, with 56 dailies. Major newspapers and their daily circulation in 2002 were the following:

NEWSPAPER	ORIENTATION	CIRCULATION
<i>Helsingin Sanomat</i> (Helsinki)	Independent	472,600
<i>Iltä-Sanomat</i> (Helsinki)	Independent	218,100
<i>Aamulehti</i> (Tampere)	Conservative	132,900
<i>Turun Sanomat</i> (Turku)	Independent	113,400
<i>Iltalehti</i> (Helsinki)	NA	101,980
<i>Kaleva</i> (Oulu)	Independent	83,800
<i>Kauppalehti</i> (Helsinki)	NA	80,000
<i>Keskisuomalainen</i> (Jyväskylä)	Center Party	79,200
<i>Hufvudstadsbladet</i> (Helsinki; Swedish)	Independent	59,200
<i>Satakunnan Kansa</i> (Pori)	Conservative	58,000
<i>Kansan Uutiset</i> (Helsinki)	Finn. People's Democratic League	42,400

The leading weekly journals in 1995 were *Seura* (circulation 276,000) and *Apu* (254,000).

The broadcast and print media enjoy independence and support from the government, which abides by legally provided free speech and press.

#### 46 ORGANIZATIONS

The right to organize is guaranteed by the constitution, and organizations play a central role in all areas of Finnish life. The cooperative movement is highly developed. Cooperatives have

developed extensive educational and informational programs, including a lively cooperative press and many training schools. They are divided into three major groups. Pellervo-Seura is the Central Organization of Farmers' Cooperatives. It provides educational and advisory services to its 800 member organizations. All the agricultural cooperative central organizations are members of Pellervo: the Cooperative Dairy Association, Meat Producers' Central Federation, Central Cooperative Egg Export Association, a wholesalers' cooperative for farm inputs and products, and the forest products cooperative. The Kulutusosuuskuntien Keskusliitto (KK) Cooperative Organizations, the so-called progressive cooperatives, include the KK (educational union of KK cooperatives), OTK (general wholesalers for KK cooperatives), and insurance associations. The FSA Cooperative Organizations are the Swedish-speaking cooperatives. Among their members are the FSA (general union of the Swedish-Finnish cooperatives), Labor (cooperative purchasing wholesalers), Åland Central Cooperative (a central cooperative for cooperative dairies on the Åland Islands), cooperative marketing associations for eggs and dairy products, and the Central Fish Cooperative.

Occupational and trade associations are numerous. In the agricultural sector the most influential is the Central Union of Agricultural Producers, a nonpolitical farmers' trade union. The Federation of Agricultural Societies concentrates on advisory and educational functions. Important in industry and commerce are the Confederation of Finnish Industries, Central Federation of Handicrafts and Small Industry, Central Board of Finnish Wholesalers' and Retailers' Associations, and the Finnish Foreign Trade Association. The Central Chamber of Commerce of Finland has its headquarters in Helsinki.

Cultural and philanthropic organizations are also numerous; among the most influential are the Finnish Academy, the Finnish Cultural Fund, and the Wihuri Foundation. National youth organizations exist for a variety of interests, including Finnish 4-H Federation, Finnish Union of Students, Guides and Scouts of Finland, the Youth League of the Coalition Party, and chapters of YMCA/YWCA.

At the level of international cooperation are such organizations as the Norden societies and the League for the United Nations. The Red Cross and Greenpeace also have active chapters.

#### 47 TOURISM, TRAVEL, AND RECREATION

Finland offers natural beauty and tranquility in forest cottages and on the tens of thousands of islands that dot the 60,000 lakes and the Baltic Sea. Winter offers cultural events and cross-country skiing; winter festivals feature sled and skating competitions, ice castles, and crafts. Finland is the original home of the sauna, a national tradition. Popular sports include skiing, running, rowing, and wrestling. Scandinavian nationals require no passports, and visa requirements have been dropped for visitors from the United States, OECD, Commonwealth, and many other countries.

In 2000 there were 3,789,000 visitor arrivals and tourism receipts totaled \$1.3 billion. That year there were 54,855 rooms and 117,322 beds in hotels and other facilities with an occupancy rate of 49%.

In 2002 the US government estimated the daily cost of staying in Helsinki at \$239. Elsewhere in Finland, daily expenses were estimated at \$161 per day.

#### 48 FAMOUS FINNS

Great Finnish literary figures include Elias Lönnrot (1802–84), compiler of the national epic, the *Kalevala*; Johan Ludwig Runeberg (1804–77), the most important of the 19th-century Finnish-Swedish writers, known for his *Elk Hunters* and *Songs of Ensign Stål*; Aleksis Kivi (1834–72), the founder of modern Finnish-language literature and author of *The Seven Brothers*;

Juhani Aho (1861–1921), master of Finnish prose; Eino Leino (1878–1926), perhaps the greatest lyric poet to write in Finnish; Frans Eemil Sillanpää (1888–1964), a Nobel Prize winner (1939), known to English-language audiences through his *Meek Heritage* and *The Maid Silja*; Toivo Pekkanen (1902–57), whose novels portray the impact of industrialization on Finnish life; Mika Waltari (1908–79), member of the Finnish Academy; Väinö Linna (1920–92), a Scandinavian Literature Prize winner (1963) and author of *The Unknown Soldier* (1954); and the antiwar novelist and playwright Veijo Meri (b.1928).

Finnish architects who are well known abroad include Eliel Saarinen (1873–1950) and his son Eero Saarinen (1910–61), whose career was chiefly in the US; Alvar Aalto (1898–1976); Viljo Revell (1910–64); and Aarne Ervi (1910–77). A leading sculptor was Väinö Aaltonen (1894–1966); others well known are Eila Hiltunen (b.1922) and Laila Pullinen (b.1933). Five representative painters are Helena Schjerfbeck (1852–1946), Albert Edelfelt (1854–1905), Akseli Gallen-Kalléla (1865–1931), Pekka Halonen (1865–1933), and Tyko Sallinen (1879–1955). Arts and crafts hold an important place in Finnish culture: leading figures are Tapio Wirkkala (1915–85) and Timo Sarpaneva (b.1926). Finnish music has been dominated by Jean Sibelius (1865–1957). Also notable are the composer of art songs Yrjö Kilpinen (1892–1957), the composer of operas and symphonies Aulis Sallinen (b.1935), and opera and concert bass Martti Talvela (1935–89).

Scientists of international repute are A. I. Wirtanen (1895–1973), Nobel Prize winner for chemistry in 1945; Rolf Nevanlinna (1895–1980), mathematician; Pentti Eskola (1883–1964), geologist; V. A. Heiskanen (1895–1971), professor of geodesy; Aimo Kaarlo Cajander (1879–1943), botanist and silviculturist; Edward Westermarck (1862–1939), ethnographer and sociologist; and Yrjö Väisälä (1891–1971), astronomer.

Outstanding athletes include Hannes Kolehmainen (1890–1966) and Paavo Nurmi (1897–1973), who between them won 14 Olympic medals in track. Another distance runner, Lasse Viren (b.1949), won gold medals in both the 1972 and 1976 games.

Major political figures of the 19th century were Johan Wilhelm Snellman (1806–81) and Yrjö Sakari Yrjö-Koskinen (1830–1903). Inseparably linked with the history of independent Finland is Marshal Carl Gustaf Emil Mannerheim (1867–1951), and with the recent postwar period President Juho Kusti Paasikivi

(1870–1956). Sakari Tuomioja (1911–64) was prominent in UN affairs. President Urho Kekkonen (1900–86) was instrumental in preserving Finland's neutrality. Mauno Henrik Koivisto (b.1923) served as president from 1982 until 1994.

## 49 DEPENDENCIES

Finland possesses no territories or colonies.

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# FRANCE

French Republic  
*République Française*

**CAPITAL:** Paris

**FLAG:** The national flag is a tricolor of blue, white, and red vertical stripes.

**ANTHEM:** *La Marseillaise*.

**MONETARY UNIT:** The euro replaced the franc as the official currency in 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Labor Day, 1 May; World War II Armistice Day, 8 May; Bastille Day, 14 July; Assumption, 15 August; All Saints' Day, 1 November; World War I Armistice Day, 11 November; Christmas, 25 December. Movable holidays include Easter Monday, Ascension, and Pentecost Monday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in Western Europe, France is the second-largest country on the continent, with an area (including the island of Corsica) of 547,030 sq km (211,209 sq mi). Comparatively, the area occupied by France is slightly less than twice the size of the state of Colorado. It extends 962 km (598 mi) N-S and 950 km (590 mi) E-W. France is bounded on the N by the North Sea and Belgium, on the NE by Luxembourg and Germany, on the E by Switzerland and Italy, on the S by the Mediterranean Sea, on the SW by Andorra and Spain, on the W by the Bay of Biscay and the Atlantic Ocean, and on the NW by the English Channel, with a total boundary length of 6,316 km (3,925 mi), of which 3,427 km (2,130 mi) is coastline.

France's capital city, Paris, is located in the northcentral part of the country.

## <sup>2</sup>TOPOGRAPHY

France topographically is one of the most varied countries of Europe, with elevations ranging from sea level to the highest peak of the continent, Mont Blanc (4,807 m/15,771 ft), on the border with Italy. Much of the country is ringed with mountains. In the northeast is the Ardennes Plateau, which extends into Belgium and Luxembourg; to the east are the Vosges, the high Alps, and the Jura Mountains; and along the Spanish border are the Pyrenees, much like the Alps in ruggedness and height.

The core of France is the Paris Basin, connected in the southwest with the lowland of Aquitaine. Low hills cover much of Brittany and Normandy. The old, worn-down upland of the Massif Central, topped by extinct volcanoes, occupies the south-central area. The valley of the Rhône (813 km/505 mi), with that of its tributary the Saône (480 km/298 mi), provides an excellent passageway from the Paris Basin and eastern France to the Mediterranean.

There are three other main river systems: the Seine (776 km/482 mi), draining into the English Channel; the Loire (1,020 km/634 mi), which flows through central France to the Atlantic; and

the Garonne (575 km/357 mi), which flows across southern France to the Atlantic.

## <sup>3</sup>CLIMATE

Three types of climate may be found within France: oceanic, continental, and Mediterranean. The oceanic climate, prevailing in the western parts of the country, is one of small temperature range, ample rainfall, cool summers, and cool but seldom very cold winters. The continental (transition) type of climate, found over much of eastern and central France, adjoining its long common boundary with west-central Europe, is characterized by warmer summers and colder winters than areas farther west; rainfall is ample, and winters tend to be snowy, especially in the higher areas. The Mediterranean climate, widespread throughout the south of France (except in the mountainous southwest), is one of cool winters, hot summers, and limited rainfall. The mean temperature is about 11°C (53° F) at Paris and 15°C (59° F) at Nice. In central and southern France, annual rainfall is light to moderate, ranging from about 68 cm (27 in) at Paris to 100 cm (39 in) at Bordeaux. Rainfall is heavy in Brittany, the northern coastal areas, and the mountainous areas, where it reaches more than 112 cm (44 in).

## <sup>4</sup>FLORA AND FAUNA

France's flora and fauna are as varied as its range of topography and climate. It has forests of oak and beech in the north and center, as well as pine, birch, poplar, and willow. The Massif Central has chestnut and beech; the subalpine zone, juniper and dwarf pine. In the south are pine forests and various oaks. Eucalyptus (imported from Australia) and dwarf pines abound in Provence. Toward the Mediterranean are olive trees, vines, and mulberry and fig trees, as well as laurel, wild herbs, and the low scrub known as maquis (from which the French resistance movement in World War II took its name).

The Pyrenees and the Alps are the home of the brown bear, chamois, marmot, and alpine hare. In the forests are polecat and marten, wild boar, and various deer. Hedgehog and shrew are common, as are fox, weasel, bat, squirrel, badger, rabbit, mouse,

otter, and beaver. The birds of France are largely migratory; warblers, thrushes, magpies, owls, buzzards, and gulls are common. There are storks in Alsace and elsewhere, eagles and falcons in the mountains, pheasants and partridge in the south. Flamingos, terns, buntings, herons, and egrets are found in the Mediterranean zone. The rivers hold eels, pike, perch, carp, roach, salmon, and trout; lobster and crayfish are found in the Mediterranean.

## 5 ENVIRONMENT

The Ministry for the Environment is the principal environmental agency. France's basic law for the protection of water resources dates from 1964. Water pollution is a serious problem in France due to the accumulation of industrial contaminants, agricultural nitrates, and waste from the nation's cities. France's cities produce about 18.7 million tons of solid waste per year. France has 180 cubic kilometers of renewable water resources with 73% used for industrial purposes and 12% used for farming. As of 1994, 20% of France's forests were damaged due to acid rain and other contaminants. The mid-1970s brought passage of laws governing air pollution, waste disposal, and chemicals. In general, environmental laws embody the "polluter pays" principle, although some of the charges imposed—for example, an aircraft landing fee—have little effect on the reduction of the pollutant (i.e., aircraft noise). Air pollution is a significant environmental problem in France, which had the world's eleventh highest level of industrial carbon dioxide emissions in 1992, totaling 362 million metric tons, a per capita level of 6.34 metric tons. Official statistics reflect substantial progress in reducing airborne emissions in major cities: the amount of sulfur dioxide in Paris decreased from 122 micrograms per cu m of air in 1971 to 54 micrograms in 1985. An attempt to ban the dumping of toxic wastes entirely and to develop the technology for neutralizing them proved less successful, however, and the licensing of approved dump sites was authorized in the early 1980s.

In 2001, 13.5% of France's total land area was protected; these areas include both national and regional parks, as well as 8 biosphere reserves, 2 World Heritage Sites, and 15 Wetlands of International Importance. From a total of 93 mammal species, 13 are threatened, as are 7 of 269 breeding bird species, 3 of 32 types of reptiles, 2 of 32 types of amphibians, and 3 species of freshwater fish from a total of 53. The greatest threat of extinction to France's flora and fauna involves its plant species. Of 4,000-plus species, 86 are endangered. Endangered or extinct species in France include the Corsican swallowtail, the gray wolf, the false ringlet butterfly, the Pyrenean desman, and the Baltic sturgeon. As of 1985, 25% of all species known to have appeared in France were extinct, endangered, or in substantial regression. Extinct species include Perrin's cave beetle and the Sardinian pika.

## 6 POPULATION

The population of France in 2003 was estimated by the United Nations at 60,144,000, which placed it as number 20 in population among the 193 nations of the world. In that year approximately 16% of the population was over 65 years of age, with another 19% of the population under 15 years of age. There were 95 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.47%, with the projected population for the year 2015 at 62,841,000. The population density in 2002 was 108 per sq km (279 per sq mi). Much of the population is concentrated in the north and southeast areas of the country.

It was estimated by the Population Reference Bureau that 76% of the population lived in urban areas in 2001. The capital city, Paris, had a population of 9,608,000 in that year. The next largest cities include Marseilles, 1,243,000; Lyon, 1,381,000; and

Lille, 1,003,000. Other major urban centers include Toulouse, Nice, Strasbourg, Nantes, Bordeaux, Montpellier, Rennes, Saint-Étienne, and Le Havre. According to the United Nations, the urban population growth rate for 2000–2005 was 0.6%.

## 7 MIGRATION

A new law on immigration and asylum was passed by Parliament in May 1998. The law included amendments to include the French Constitution's provision to protect "those fighting for freedom" and those threatened with inhuman and degrading treatment in their country of origin. In 1998, a total of 22,374 asylum applications were submitted to France, mostly from Asia and Europe. In the same year, recognition of refugee status was granted to some 17% of asylum seekers. Refugees enjoy all the rights of regular immigrants. France also hosts some 6,300 Kosovar Albanians who arrived in 1999 under the UNHCR/IOM Humanitarian Evacuation Programme. In 1999, the net migration rate was 0.53 migrants per 1,000 population.

## 8 ETHNIC GROUPS

About 94% of the population holds French citizenship. Most of these citizens are of French ancestry, but there are also small groups of Flemings, Catalans, Germans, Armenians, Gypsies, Russians, Poles, and others. The largest resident alien groups are Algerians, Portuguese, Moroccans, Italians, Spaniards, Tunisians, and Turks.

## 9 LANGUAGES

Not only is French the national language of France, but it also has official status (often with other languages) throughout much of the former French colonial empire, including about two dozen nations in Africa. In all, it is estimated that more than 300 million people have French as their official language or mother tongue. Moreover, French is the sole official language at the ICJ and UPU, and shares official status in most international organizations. Other languages spoken within France itself include Breton (akin to Welsh) in Brittany; a German dialect in Alsace and Lorraine; Flemish in northeastern France; Spanish, Catalan, and Basque in the southwest; Provençal in the southeast, and an Italian dialect on the island of Corsica.

## 10 RELIGIONS

Church and state have been legally separate since 1905. In 2002, about 83% to 88% of the population were nominally Roman Catholic, but church officials claim that very few are practicing members of the church. About 2% were Protestant, mostly Calvinist or Lutheran. Muslims (mostly North African workers) make up about 7% to 8%. Jews and Baha'is each made up about 1%. About 4% subscribed to no religion at all.

The French Jewish community is one of the largest in the world, along with those in the US, Israel, and the former USSR; more than half are immigrants from North Africa. The 600,000 to 700,000 members are divided between Reform, Conservative, and Orthodox groups. Jews have enjoyed full rights of citizenship in France since 1791, and the emancipation of Central European Jewry was accomplished, to a large extent, by the armies of Napoleon Bonaparte. Anti-Semitism became a flaming issue during the Dreyfus affair in the late 1890s; in the 1980s, principal French synagogues were under police guard because of a wave of attacks by international terrorists.

## 11 TRANSPORTATION

France has one of the most highly developed transportation systems in Europe. Its outstanding characteristic has long been the degree to which it is centralized at Paris—plateaus and plains offering easy access radiate from the city in all directions, and rivers with broad valleys converge on it from all sides. In 2002, the road network of 892,900 paved km (554,848 mi) included



LOCATION: 42°20' to 51°5' N; 4°47' W to 8°15' E. BOUNDARY LENGTHS: Belgium, 620 kilometers (387 miles); Luxembourg, 73 kilometers (45 miles); Germany, 451 kilometers (280 miles); Switzerland, 573 kilometers (358 miles); Italy, 488 kilometers (305 miles); Andorra, 60 kilometers (37 miles); Spain, 623 kilometers (389 miles); total coastline (including islands), 3,427 kilometers (2,125 miles). TERRITORIAL SEA LIMIT: 12 miles.

about 9,900 km (6,152 mi) of national highways. In 2000 there were 28 million passenger cars and 5.7 million commercial vehicles.

All French railroads were nationalized in 1938 and are part of the national rail network Société Nationale des Chemins-de-Fer Français, 51% of whose shares are controlled by the government.

As of 2002 there were 31,939 km (19,847 mi) of railway track, of which about 14,176 km (8,809 mi) were electrified. Le Train à Grande Vitesse (TGV), the fastest train in the world, averaging 250 km (155 mi) per hour over most of its run, entered service between Paris and Lyon in 1981. TGV service between Paris and Lausanne became fully operational in 1985. The TGV set another

world speed record on 18 May 1990 with a registered speed of 320.2 mph (515.2 kph). The Paris subway (*métro*), begun in the early 1900s but extensively modernized, and the city's regional express railways cover a distance of 472 km (293 mi). The *métro* has over one million passengers a day; Parisian bus lines carry about 800,000 passengers daily. Other cities with subways are Marseille, Lille, and Lyon, with construction underway in Toulouse.

Two high-speed rail tunnels under the English Channel link Calais and Folkestone, England (near Dover). The 50-km (31-mi) project by Eurotunnel, a British-French consortium, was completed in 1993. From these terminals, people can drive their cars and trucks onto trains which can make the underground trek in about thirty minutes. Rail lines that run through the tunnel include Le Shuttle, which provides both freight and passenger service, and Eurostar, a high-speed passenger-only line. In November 1996 a truck aboard a Le Shuttle train caught fire in the tunnel, causing extensive damage but no loss of life. Service was partially restored within weeks of the incident and full repairs were completed by the following May.

France, especially in its northern and northeastern regions, is well provided with navigable rivers and connecting canals, and inland water transportation is of major importance. In 2002, there were about 6,969 km (4,331 mi) of navigable waterways in heavy use of the 14,932 km (9279 mi) of waterways. The French merchant marine, as of 2002, had a total of 49 ships with 1,000 GRT or over and a total capacity of 1,263,691 GRT. Kerguelen, an archipelago in the French Antarctic Territory, offers an offshore registry program which is less regulatory than official French registry. The leading ports are Marseille, Le Havre, Dunkerque, Rouen, Bordeaux, and Cherbourg. Other important ports include Boulogne, Brest, Fos-Sur-Mer, Sete, and Toulon. More than half of freight traffic to and from French ports is carried by French ships.

In 2001 there were an estimated 477 airports in France, of which 273 had paved runways. France's national airline, Air France, is government subsidized. It operates regularly scheduled flights to all parts of the world. The Concorde, jointly developed by France and the United Kingdom at a cost of more than £1 billion, entered regular transatlantic service in 1976. There are two major private airlines: the Union des Transports Aériens, which provides service to Africa and the South Pacific, and Air Inter, which operates within metropolitan France. The two international airports of Paris, Charles de Gaulle and Orly, both located in Paris, lead all others in France in both passenger and freight traffic. In 2001, 50,816,500 passengers were carried on scheduled domestic and international air flights.

## 12 HISTORY

Cave paintings and engravings, the most famous of them at Lascaux, near Montignac in the southwest, attest to human habitation in France as early as 30,000 years ago. Relics from the period between 4000 and 1800 BC include some 4,500 dolmens (structures consisting of two vertical stones capped by a horizontal stone), nearly 1,000 of them in Brittany alone, and more than 6,000 menhirs (single vertical stones), 1.5–21.3 m (5–70 ft) high and weighing up to 350 tons. There may already have been 2–3 million people in France when Phoenician and Greek colonists founded cities on the southern coast around 600 BC.

Detailed knowledge of French history begins with the conquest of the region (58–51 BC) by Julius Caesar. The country was largely inhabited by Celtic tribes known to the Romans as Gauls. Under Roman rule the Gallic provinces were among the most prosperous and civilized of the empire. Roman roads, traces of which still may be seen, traversed the land. Numerous cities were founded. Latin superseded the Celtic dialects. Christianity spread rapidly in Roman Gaul after its introduction there in the 1st century, and by the time the empire began to disintegrate a few

hundred years later, the Gauls were a thoroughly Romanized and Christianized people. Early in the 5th century, Teutonic tribes invaded the region from Germany, the Visigoths settling in the southwest, the Burgundians along the Rhône River Valley, and the Franks (from whom the French take their name) in the north. The Germanic invaders probably never constituted more than a dominant minority of the population.

The first leader to make himself king of all the Franks was Clovis (466–511), who began his reign in 481, routing the last forces of the Roman governors of the province in 486. Clovis claimed that he would be baptized a Christian in the event of his victory against the Visigoths, which was said to have guaranteed the battle. Clovis conquered the southwest from the Visigoths, was baptized in 496 and made himself master of western Germany, but after his death the kingdom disintegrated and its population declined under the Merovingian dynasty. In 732, Charles Martel was able to rally the eastern Franks to inflict a decisive defeat on the Saracens—Muslim invaders who already controlled the Iberian Peninsula—between Poitiers and Tours. He spawned the Carolingian family, as well as his grandson, Charlemagne (r.768–814), who was the greatest of the early Frankish rulers. Ruling “by the sword and the cross,” he gave the kingdom an efficient administration, created an excellent legal system, and encouraged the revival of learning, piety, and the arts. He added to the territories under his rule through wide conquests, eventually reigning over an area corresponding to present-day France, the FRG, the Low Countries, and northern Italy. On Christmas Day in the year 800, he was crowned emperor of the West and ruler of the 1st Holy Roman Empire by the pope in Rome.

After the death of Charlemagne, the vast Carolingian Empire broke up during a century of feuding, the title of emperor passing to German rulers in the east. The territory of what is now France was invaded anew, this time by pagan tribes from Scandinavia and the north, and the region that later became known as Normandy was ceded to the Northmen in 911 by Charles III (“the Simple,” r.898–923). At the end of the century, Hugh Capet (r.987–996) founded the line of French kings that, including its collateral branches, was to rule the country for the next 800 years. Feudalism was by now a well-established system. The French kings were the dukes and feudal overlords of the Île de France, centered on Paris and extending roughly three days' march around the city. At first, their feudal overlordship over the other provinces of France was almost entirely nominal. Some of the largest of these, like the Duchy of Brittany, were practically independent kingdoms. The Duchy of Normandy grew in power when William II, duke of Normandy, engaged in the Norman Conquest of England (1066–70) and became king as William I (“the Conqueror”), introducing the French language and culture to England. The powers of the French monarchy were gradually extended in the course of the 11th and early 12th centuries, particularly by Louis VI, who died in 1137. The power of his son Louis VII (r.1137–80) was challenged by Henry of Anjou, who, upon his accession to the English throne as Henry II in 1154, was feudal master of a greater part of the territory of France, including Normandy, Brittany, Anjou, and Aquitaine. Henry's sons, Richard and John, were unable to hold these far-flung territories against the vigorous assaults of Louis's son Philip Augustus (r.1180–1223). By 1215, Philip had not only reestablished the French crown's control over the former Angevin holdings in the north and west but also had firmly consolidated the crown's power in Languedoc and Toulouse. Philip's grandson Louis IX (St. Louis), in a long reign (1226–70), firmly established the strength of the monarchy through his vigorous administration of the royal powers. The reign of Louis's grandson Philip IV (“the Fair,” 1285–1314) marks the apogee of French royal power in the medieval period. He quarreled with the papacy over fiscal control of the French clergy and other aspects of sovereignty. His

emissaries arrested Pope Boniface VIII and after his death removed the seat of the papacy to Avignon, where the popes resided under French dominance (the so-called Babylonian Captivity) until 1377.

It is estimated that between 1348 and 1400 the population dropped from 16 million to 11 million, mainly from a series of epidemics, beginning with the Black Death (bubonic plague) of 1348–50. In 1415, Henry V of England, taking advantage of civil war between the Gascons and Armagnacs, and the growing insanity of Charles VI, launched a new invasion of France and won a decisive victory at Agincourt. Charles VI (r.1380–1422) was compelled under the Treaty of Troyes (1420) to marry his daughter Catherine to Henry and to declare the latter and his descendants heirs to the French crown. Upon Henry's death in 1422, his infant son Henry VI was crowned king of both France and England, but in the same year, Charles's son, the dauphin of France, reasserted his claim, formally assumed the royal title, and slowly began the reconquest.

Philip the Fair was succeeded by three sons, who reigned briefly and who left no direct male heirs, ending the Capetian dynasty. In 1328, his nephew Philip VI (in accordance with the so-called Salic Law, under which succession could pass through a male line only) mounted the throne as the first of the Valois kings. The new king's title to the throne was challenged by Edward III of England, whose mother was the daughter of Philip the Fair. In 1337, Edward asserted a formal claim to the French crown, shortly thereafter quartering the lilies of France on his shield. The struggle that lasted from 1337 to 1453 over these rival claims is known as the Hundred Years' War. Actually it consisted of a series of shorter wars and skirmishes punctuated by periods of truce. Edward won a notable victory at Crécy in 1346, in a battle that showed the superiority of English ground troops and longbows against the French knights in armor. In 1356, the French royal forces were routed by the Prince of Wales at Poitiers, where the French king, John II, was taken prisoner. By terms of the Treaty of Brétigny (1360), the kingdom of France was dismembered, the southwest being formally ceded to the king of England. Under Charles V (r.1364–80), also called "Charles the Wise," however, the great French soldier Bertrand du Guesclin, through a tenaciously conducted series of skirmishes, succeeded in driving the English from all French territory except Calais and the Bordeaux region.

#### 1422–1789

The first part of the Hundred Years' War was essentially a dynastic rather than a national struggle. The English armies themselves were commanded by French-speaking nobles and a French-speaking king. Although the legitimate succession to the French crown was the ostensible issue throughout the war, the emerging forces of modern nationalism came into play with the campaign launched by Henry V, whose everyday language was English and who, after Agincourt, became an English national hero. France owed no small measure of its eventual success to the sentiment of nationalism that was arising throughout the country and that found its personification in the figure of Joan of Arc. Early in 1429, this young woman of surprising military genius, confident that she had a divinely inspired mission to save France, gained the confidence of the dauphin. She succeeded in raising the siege of Orléans and had the dauphin crowned Charles VII at Reims. Joan fell into English hands and at Rouen in 1431 was burned at the stake as a heretic, but the French armies continued to advance. Paris was retaken in 1436, and Rouen in 1453; by 1461, when Charles died, the English had been driven from all French territory except Calais, which was recaptured in 1558.

Louis XI (r.1461–83), with the support of the commercial towns, which regarded the king as their natural ally, set France on a course that eventually destroyed the power of the great feudal lords. His most formidable antagonist, Charles the Bold, duke of

Burgundy, who ruled virtually as an independent monarch, commanded for many years far more resources than the king of France himself. But after the duke was defeated and killed in a battle against the Swiss in 1477, Louis was able to reunite Burgundy with France. When Louis's son Charles VIII united Brittany, the last remaining quasi-independent province, with the royal domain by his marriage to Anne of Brittany, the consolidation of the kingdom under one rule was complete.

Under Charles VIII (r.1483–98) and Louis XII (r.1498–1515), France embarked on a series of Italian wars, which were continued under Francis I (r.1515–47) and Henry II (r.1547–59). These wars developed into the first phase of a protracted imperialistic struggle between France and the house of Habsburg. Although the Italian wars ended in a French defeat, they served to introduce the artistic and cultural influences of the Italian Renaissance into France on a large scale. Meanwhile, as the Reformation gained an increasing following in France, a bitter enmity developed between the great families that had espoused the Protestant or Huguenot cause and those that had remained Catholic. The policy of the French monarchy was in general to suppress Protestantism at home while supporting it abroad as a counterpoise to Habsburg power. Under the last of the Valois kings, Charles IX (r.1560–74) and Henry III (r.1574–89), a series of eight fierce civil wars devastated France, called The Wars of Religion. Paris remained a stronghold of Catholicism, and on 23–24 August 1572, a militia led by the Duke of Guise slaughtered thousands of Protestants in the Massacre of St. Bartholomew. The Protestant Henry of Navarre was spared because of his royal status and eventually, on the death of Henry III, he acceded to the throne, beginning the Bourbon dynasty. Unable to capture Paris by force, Henry embraced Catholicism in 1593 and entered the city peacefully the following year. In 1598, he signed the Edict of Nantes, which guaranteed religious freedom to the Huguenots. With the aid of his minister Sully, Henry succeeded in restoring prosperity to France.

Assassinated in 1610 by a Catholic fanatic after nineteen attempts on his life, Henry IV was succeeded by his young son Louis XIII, with the queen mother, Marie de Médicis, acting as regent in the early years of his reign. Later, the affairs of state were directed almost exclusively by Cardinal Richelieu, the king's minister. Richelieu followed a systematic policy that entailed enhancing the crown's absolute rule at home and combating the power of the Habsburgs abroad. In pursuit of the first of these objectives, Richelieu destroyed the political power of the Protestants by strictly monitoring the press and French language through the Academie Francaise; in pursuit of the second he led France in 1635 into the Thirty Years' War, then raging in Germany, on the side of the Protestants and against the Austrians and the Spanish. Richelieu died in 1642, and Louis XIII died a few months later. His successor, Louis XIV, was five years old, and during the regency of his mother, Anne of Austria, France's policy was largely guided by her adviser Cardinal Mazarin. The generalship of the prince de Condé and the vicomte de Turenne brought France striking victories. The Peace of Westphalia (1648), which ended the Thirty Years' War, and the Peace of the Pyrenees (1659) marked the end of Habsburg hegemony and established France as the dominant power on the European continent. The last attempt of the French nobles in the Paris Parliament to rise against the crown, called the Fronde (1648–53), was successfully repressed by Mazarin even though the movement had the support of Condé and Turenne.

The active reign of Louis XIV began in 1661, the year of Mazarin's death, and lasted until his own death in 1715. Louis XIV had served in the French army against Spain before his accession, and married the daughter of the King of Spain in order to bring peace to the region, despite his love for Mazarin's niece. Assisted by his able ministers Colbert and Louvois, he completed Mazarin's work of domestic centralization and transformed the



French state into an absolute monarchy based on the so-called divine right of kings. Industry and commerce were encouraged by mercantilist policies, and great overseas empires were carved out in India, Canada, and Louisiana. By transforming the nobles into perennial courtiers, financially dependent on the crown, the king clipped their wings. Lavish display marked the early period of his reign, when the great palace at Versailles was built, beginning the era of French Classicism.

The reign of Louis XIV marked the high point in the prestige of the French monarchy. It was a golden age for French culture as well, and French fashions and manners set the standard for all Europe. Nevertheless, the Sun King, as he was styled, left the country in a weaker position than he had found it. In 1672, he invaded the Protestant Netherlands with his cousin Charles I of England, defeating Spain and the Holy Roman Empire as well in 1678. In 1685, he revoked the Edict of Nantes, and an estimated 200,000 Huguenots fled the country to escape persecution. Whole provinces were depopulated, and the economy was severely affected by the loss of many skilled and industrious workers. Louis undertook a long series of foreign wars, culminating in the War of the Spanish Succession (1701–14), in which England, the Netherlands, and most of the German states were arrayed against France, Spain, Bavaria, Portugal, and Savoy. In the end, little territory was lost, but the military primacy of the country was broken and its economic strength seriously sapped.

The reign of Louis XV (1715–74) and that of his successor, Louis XVI (1774–93), which was terminated by the French Revolution, showed the same lavish display of royal power and elegance that had been inaugurated by the Sun King. At the same time, the economic crisis that Louis XIV left as his legacy continued to grow more serious. A series of foreign wars cost France its Indian and Canadian colonies and bankrupted the country, including the French and Indian War (1755–1760). Meanwhile, the locus of the economic power in the kingdom had shifted to the hands of the upper bourgeoisie in the Enlightenment, who resented the almost wholly unproductive ruling class that espoused Classicism. The intellectual currents of the so-called Age of Reason were basically opposed to the old order. Voltaire attacked the Church and the principle of absolutism alike; Diderot advocated scientific materialism; Jean-Jacques Rousseau preached popular sovereignty. The writer changed from a royal servant into a revolutionary force.

### 1789–1900

In 1789, faced with an unmanageable public debt, Louis XVI convened, for the first time since the reign of Louis XIII, the States-General, the national legislative body, to consider certain fiscal reforms. The representatives of the third estate, the Commons, met separately on 17 June and proclaimed themselves the National Assembly. This action, strictly speaking, marked the beginning of the French Revolution, although the act that best symbolized the power of the revolution was the storming of the Bastille, a royal prison, by a Paris mob on 14 July—an event still commemorated as a national holiday. With the support of the mob, which forced the king, his wife Marie Antoinette, and his family from the palace at Versailles into virtual imprisonment in the Tuileries in Paris; the Assembly was able to force Louis to accept a new constitution including The Declaration of the Rights of Man and the Citizen, providing for a limited monarchy, the secularization of the state, and the seizure of Church lands. War with Austria, which wished to intervene to restore the status quo ante in France, broke out in 1792. The Assembly's successor, the National Convention, elected in September 1792, proclaimed the First French Republic. Louis XVI was convicted of treason and executed. The radical group of Jacobins under Maximilien Robespierre's leadership exercised strict control through committees of public welfare and a revolutionary tribunal. The Jacobins attempted to remake France in the image of an

egalitarian republic. Their excesses led to a Reign of Terror (1793–94), carried out indiscriminately against royalists and such moderate republican groups as the Girondins. Manifest opposition to the Jacobins and specifically to Robespierre combined to end their reign in the summer of 1794. In 1795, a new constitution of moderate character was introduced, and executive power was vested in a Directory of five men. The Directory, weakened by inefficient administration and military reverses, fell in turn in 1799, when the military hero Napoleon Bonaparte engineered a coup and established the Consulate. Ruling autocratically as the first consul, Bonaparte established domestic stability and decisively defeated the Austrian-British coalition arrayed against France. In 1804, he had himself proclaimed emperor as Napoleon I and, until his downfall in 1814, he ruled France in that capacity.

Capitalizing on the newly awakened patriotic nationalism of France, Napoleon led his imperial armies to a striking series of victories over the dynastic powers of Europe. By 1808, he was the master of all Europe west of Russia with the exception of the British Isles. That year, however, the revolt in Spain—upon whose throne Napoleon had placed his brother Joseph—began to tax French military reserves. Napoleon's ill-fated attempt to conquer Russia in 1812 was followed by the consolidation of a powerful alliance against him, consisting of Russia, Prussia, Britain, and Sweden. The allies defeated Napoleon at Leipzig in 1813 and captured Paris in the spring of 1814. Napoleon was exiled to the island of Elba, just off the northwest coast of Italy, and Louis XVIII, a brother of Louis XVI, was placed on the French throne. In March 1815, Napoleon escaped from Elba, rallied France behind him, and reentered Paris in triumph behind the fleeing Louis XVIII. He was, however, finally and utterly crushed by the British and Prussian forces at Waterloo (18 June 1815) and spent the remaining years of his life as a British prisoner of war on the island of St. Helena in the South Atlantic.

After the final fall of Napoleon, Louis XVIII ruled as a moderate and peaceful monarch until 1824, when he was succeeded by his brother Charles X, an ultra royalist. Charles attempted to restore the absolute powers of the monarchy and the supremacy of the Catholic Church. In 1830, he was ousted after a three-day revolution in which the upper bourgeoisie allied itself with the forces of the left. Louis Philippe of the house of Orléans was placed on the throne as "citizen-king," with the understanding that he would be ruled by the desires of the rising industrial plutocracy. In 1848, his regime was overthrown in the name of the Second Republic. Four years later, however, its first president, Louis Napoleon, the nephew of Napoleon I, engineered a coup and had himself proclaimed emperor under the title Napoleon III. The Second Empire, as the period 1852–71 is known, was characterized by colonial expansion and great material prosperity. The emperor's aggressive foreign policy eventually led to the Franco-Prussian War (1870–71), which ended in a crushing defeat for France and the downfall of Napoleon III. France was stripped of the border provinces of Alsace and Lorraine (which once belonged to the Holy Roman Empire) and was forced to agree to an enormous indemnity. A provisional government proclaimed a republic on 4 September 1870 and took over the responsibility for law and order until a National Assembly was elected in February 1871. Angered at the rapid capitulation to Prussia by the provisionals and the conservative National Assembly, the national guard and radical elements of Paris seized the city in March and set up the Commune. During the "Bloody Week" of 21–28 May, the Commune was savagely dispatched by government troops.

Democratic government finally triumphed in France under the Third Republic, whose constitution was adopted in 1875. Royalist sentiment had been strong, but the factions backing different branches of the royal house had been unable to agree on a candidate for the throne. The Third Republic confirmed

freedom of speech, the press, and association. It enforced complete separation of church and state. Social legislation guaranteeing the rights of trade unions was passed, and elections were held on the basis of universal manhood suffrage. The Third Republic, however, was characterized by an extremely weak executive. A long succession of cabinets was placed in power and shortly thereafter removed from office by the all-powerful lower house of the national legislature. Nevertheless, the republic was strong enough to weather an attempt on the part of the highly popular Gen. Georges Boulanger to overthrow the regime in the late 1880s, as well as the bitter dispute between the left-wing and right-wing parties occasioned by the trumped-up arrest and long imprisonment of Capt. Alfred Dreyfus, a scandal in which Dreyfus's being Jewish was as much an issue as the treason he had allegedly committed. The eventual vindication of Dreyfus went hand in hand with the decisive defeat of the monarchists and the emergence of a progressive governing coalition, with Socialist representation.

### The Twentieth Century

During World War I (1914–18), the forces of France, the United Kingdom, Russia, and, from 1917, the United States were locked in a protracted struggle with those of Germany, Austria-Hungary, and Turkey. Although France, under the leadership of Georges Clemenceau, could claim a major share in the final Allied victory, it was in many respects a Pyrrhic victory for France. Almost all the bitter fighting in the west was conducted on French soil, and among the Allies French casualties—including nearly 1,400,000 war dead—were second only to those sustained by Russia. The heavily industrialized provinces of Alsace and Lorraine were restored to France under the Treaty of Versailles (1919), and Germany was ordered to pay heavy war reparations. Nevertheless, the French economy, plagued by recurrent crises, was unable to achieve great prosperity in the 1920s, and the worldwide economic depression of the 1930s (exacerbated in France by the cessation of German reparations payments) was accompanied in France by inflation, widespread unemployment, and profound social unrest. Right- and extreme left-wing elements caused major disturbances on 6 February 1934. In 1936, the left-wing parties carried the parliamentary elections and installed a so-called Popular Front government under a Socialist, Léon Blum. Blum nationalized certain war industries, carried out agricultural reforms, and made the 40-hour week mandatory in industry. Increasing conservative opposition forced the Popular Front government from power, however, and in the face of the growing menace of Adolf Hitler's Germany, the leftists accepted the conservative government of Édouard Daladier in 1938. In a futile attempt to secure peace, Daladier acquiesced in British Prime Minister Neville Chamberlain's policy of appeasement toward Hitler. Hitler was not to be appeased, however, and when Germany invaded Poland in September 1939, France joined the United Kingdom in declaring war on Germany.

On 10 May 1940, the Germans launched a great invasion of the west through the Low Countries and the heavily wooded and sparsely defended Ardennes region. In less than a month, German forces outflanked the French Maginot Line fortifications and routed the French armies between the Belgian frontier and Paris. Marshal Pétain, the aged hero of World War I, hastily formed a government and sued for peace. With the exception of a triangular zone with its northern apex near Vichy, all France was placed under the direct occupation of the Germans. The Vichy regime ended the Third Republic and proclaimed a constitution based on the slogan "labor, family, fatherland," as opposed to the traditional republican "liberty, equality, fraternity." While the Vichy government did its best to accommodate itself to the German victory, French resistance gathered overseas around Gen. Charles de Gaulle, a brilliant career officer who had escaped to London on 18 June 1940 to declare that France had "lost a

battle, not the war." De Gaulle organized the Provisional French National Committee, and this committee of the Free French later exercised all the powers of a wartime government in the French territories where resistance to the Germans continued. The Free French forces took part in the fighting that followed the Allied invasion of North Africa in 1942, and in 1943 a provisional French government was established at Algiers. Regular French units and resistance fighters alike fought in the 1944 campaign that drove the Germans from France, and shortly after the liberation of Paris, de Gaulle's provisional government moved from Algiers to the capital. It was officially recognized by the United States, the United Kingdom, and the former USSR in October 1944.

France's postwar vicissitudes have been political rather than economic. De Gaulle resigned as head of the government early in 1946 over the issue of executive powers, and in spite of his efforts the Fourth Republic, under a constitution that came into effect in December 1946, was launched with most of the weaknesses of the Third Republic. Almost all powers were concentrated in the hands of the National Assembly, the lower house of Parliament, and there were numerous warring political parties.

Although the people of metropolitan France overwhelmingly approved de Gaulle's program for eventual Algerian independence, some French army officers and units attempted to overthrow the government by terrorism, which de Gaulle suppressed by temporarily assuming emergency powers. Peace negotiations were successfully concluded with Algerian rebel leaders, and Algeria gained independence on 1 July 1962. By then, nearly all of France's former African territories had attained independence. France has continued to provide economic assistance, and its ties with most of the former colonies have remained close. Almost continuous fighting overseas in French colonies, first in Indochina, which was lost in 1954, and later in Algeria, the scene of a nationalist rebellion among the Muslims, placed a heavy burden on France and led, especially after the Suez expedition of 1956, to disillusionment on the part of elements in the French army, which felt that its work was being undermined by a series of vacillating parliamentary governments. In May 1958, extremists among the French settlers in Algeria, acting with a group of army officers, seized control of Algiers. Sympathetic movements in Corsica and in metropolitan France raised the specter of a right-wing coup. The government found itself powerless to deal with the situation, and on 1 June, Gen. de Gaulle, regarded as the only leader capable of rallying the nation, was installed as premier. He ended the threat peaceably, and in the fall of 1958, he submitted to a national referendum a new constitution providing for a strong presidency; the constitution won overwhelming approval. Elections held in November swept candidates pledged to support de Gaulle into office, and in December 1958, he was officially named the first president of the Fifth Republic.

During the mid-1960s, de Gaulle sought to distance France from the Anglo-American alliance. France developed its own atomic weapons and withdrew its forces from the NATO command; in addition, de Gaulle steadfastly opposed the admission of the United Kingdom to the EEC, of which France had been a founding member in 1957. The Treaty of Rome in 1957 created the original European Economic Community that consisted of Germany, Belgium, France, Italy and The Netherlands, and formed EURATOM, which created an open forum for scientific exchange and nuclear arms regulation on the continent.

The political stability of the mid-1960s ended in the spring of 1968, with student riots and a month-long general strike that severely weakened the Gaullist regime. In April 1969, Gen. de Gaulle resigned following a defeat, by national referendum, of a Gaullist plan to reorganize the Senate and regional government. In June, Georges Pompidou, a former premier in de Gaulle's

government, was elected the second president of the Fifth Republic. Between 1969 and 1973, the Gaullist grip on the French populace continued to weaken, at the end of which time de Gaulle was forced to accept the United Kingdom, Ireland and Denmark into the EC, and to work within the economic constraints of the “Snake Mechanism” which, starting in 1972, linked EC currencies. In 1974, after President Pompidou died in office, an Independent Republican, Valéry Giscard d’Estaing, narrowly won a national runoff election (with Gaullist help) and became the third president of the Fifth Republic. Giscard strengthened relations with the United States but continued to ply a middle course between the superpowers in world affairs. The ECU, or European Currency Unit was born in 1979 from the economic stresses of the seventies, leading eventually to Monetary Union at the millennium with the Euro.

Although Giscard’s center-right coalition held firm in the March 1978 legislative elections, a Socialist, François Mitterrand, was elected president in May 1981, and the Socialists captured a parliamentary majority in June. Mitterrand launched a program of economic reforms, including the nationalization of many industrial companies and most major banks. However, three devaluations of the franc, high unemployment, and rising inflation led to the announcement of an austerity program in March 1983. In foreign policy, Mitterrand took an activist stance, opposing the US attempt in 1982 to halt construction of a natural gas pipeline between the former USSR and Western Europe, committing French troops to a peacekeeping force in Lebanon, and aiding the Chadian government against domestic insurgents and their Libyan backers.

In July 1984, Mitterrand accepted the resignation of Prime Minister Pierre Mauroy and named Laurent Fabius to replace him, signaling his intention to stress economic austerity and modernization of industry. In foreign affairs, the government attempted some retrenchment during 1984, withdrawing peacekeeping troops from Lebanon and announcing a “total and simultaneous” withdrawal of French and Libyan troops from Chad. However, Libyan troops did not actually withdraw as envisioned, and fighting there prompted a return of French troops in 1986. A major scandal was the disclosure in 1985 that French agents were responsible for the destruction in New Zealand, with the loss of a life, of a ship owned by an environmentalist group protesting French nuclear tests in the South Pacific.

In March 1986 elections, the Socialists lost their majority in the National Assembly, and Mitterrand had to appoint a conservative prime minister, Jacques Chirac, to head a new center-right cabinet. This unprecedented “cohabitation” between a Socialist president and a conservative government led to legislative conflict, as Chirac, with backing from the National Assembly, successfully instituted a program, opposed by Mitterrand, to denationalize 65 state-owned companies. Chirac encountered less success late in 1986 as he sought to deal with a wave of terrorist violence in Paris. In 1988, Chirac challenged Mitterrand for the presidency, but in the May runoff election, Mitterrand won a commanding 54% of the vote and a second seven-year term. Chirac then resigned, and Mitterrand formed a minority Socialist government.

Economic and social problems as well as government scandals strained relations between the Socialist Mitterrand, the Conservative PM Eduard Balladur in the second cohabitation, and a center-right government. Unemployment remained high and new legislation increased police powers to combat illegal immigration. Several prominent politicians were the subject of corruption charges and in 1993 legal proceedings were instituted against former primer minister, Laurent Fabius, related to an HIV-infected blood scandal. A prominent Socialist prime minister, Pierre Beregovoy, committed suicide in May 1993 over media allegations of financial improprieties.

In May 1995, Jacques Chirac was elected president, winning 52.64% of the popular vote, compared to 47.36% for socialist Lionel Jospin, and Alain Juppé was appointed prime minister. The National Assembly had elected an RPR-Gaullist majority in 1993, setting the country firmly in the grips of the type of conservatism that had been ousting socialist and Social Democrats in much of western Europe during the mid-to-late 1980s. Chirac immediately set about instituting austerity measures to rein in government spending in the hope of meeting certain rigid monetary guidelines so that France would be ready to join the European Monetary Union (EMU) in 1999. The EMU would create a single European currency, the “euro,” to replace member countries’ individual currencies. The idea of a monetary union had never been widely popular in France and the Maastricht Treaty, which set down conditions for EMU membership passed by only a slim margin.

Many of Chirac’s attempts to reduce public spending and limit—or even erode—France’s welfare state met with stern resistance. With the signing of the Amsterdam Treaty of 1997, Chirac sensed the need for a reaffirmation of his commitment to meet austerity measures for EMU membership. Chirac dissolved the National Assembly, calling for parliamentary elections in 1997, one year earlier than constitutionally mandated. In doing so, the French president believed he would demonstrate that the majority of the population believed in responsible cutbacks in government spending and anti-inflammatory monetary policy, despite the adverse effects they might have on the country’s already quite high inflation. In May and June of 1997, elections were held and Chirac’s plan badly backfired with the Socialists winning a commanding majority, along with the Communists. After the elections, a demoralized Chirac appointed Socialist leader Lionel Jospin prime minister, beginning the third cohabitation government. Jospin, a halfhearted supporter of monetary union, called for a program of increased government spending to create 700,000 jobs, a reduction in the work week from 39 to 35 hours, and made a broad pledge to protect the welfare state. The euro was successfully launched in 1999, and the currency was circulated in January 2002.

Presidential elections were held on 21 April and 5 May 2002. In the first round, Chirac won 19.9% of the vote, National Front leader Jean-Marie Le Pen came in second with 16.9%, and Prime Minister Jospin finished third with 16.2% of the vote. The strong showing by Le Pen sent shock waves throughout France and Europe, as his extreme right-wing, anti-immigrant, xenophobic party demonstrated its popularity. Jospin announced he was retiring from politics; for the first time since 1969 the Socialists did not have a candidate in a presidential runoff, marking a major defeat for the French left. In the second round of voting, Chirac overwhelmingly defeated Le Pen, taking 82.2% of the vote to Le Pen’s 17.8%. It was the largest majority since direct presidential elections were first introduced, and was preceded by a major popular campaign against Le Pen. Chirac named centrist Jean-Pierre Raffarin to be prime minister. In elections for the National Assembly held in June 2002, the center-right coalition Union for the Presidential Majority (consisting of Chirac’s Rally for the Republic and the Liberal Democracy party) won a landslide victory, taking 33.7% of the vote and 357 of 577 seats in parliament. The Socialist Party finished second with 24.1% and 140 seats. Le Pen’s National Front failed to win a single seat.

In 2002–03, France was confronted with a major foreign policy dilemma. Throughout 2002, the United States and United Kingdom were committing troops to the Persian Gulf region, positioning themselves against Iraq and accusing its leader, Saddam Hussein, of possessing weapons of mass destruction. In the event that Iraq would not disarm itself of any weapons of mass destruction it might possess, it was evident that the United States and United Kingdom might use those troops to force a regime change in Iraq. The UN Security Council unanimously

passed Resolution 1441 on 8 November 2002, calling upon Iraq to disarm itself of chemical, biological, and nuclear weapons or weapons capabilities, to allow the immediate return of UN and International Atomic Energy Agency (IAEA) weapons inspectors, and to comply with all previous UN resolutions regarding the country since the end of the Gulf War in 1991. The United States and United Kingdom indicated that if Iraq would not comply with the resolution, “serious consequences” might result, meaning military action. The other three permanent members of the Security Council, France, Russia, and China, expressed their reservations with that position. France was the most vocal opponent of war, and threatened to use its veto power in the Security Council if another Security Council resolution authorizing the use of force would be called for. The United States and United Kingdom abandoned diplomatic efforts at conflict resolution in March 2003, and on 19 March, the coalition went to war in Iraq. Once coalition forces defeated Iraq and plans for reconstruction of the country were being discussed in April, France stressed the need for a strong role to be played by the UN in a post-war Iraq.

### 13 GOVERNMENT

Under the constitution of the Fifth Republic (1958), as subsequently amended, the president of the republic is elected for a five-year term (changed from a seven-year term following a referendum on 24 September 2000) by direct universal suffrage. If no candidate receives an absolute majority of the votes cast, a runoff election is held between the two candidates having received the most votes. If the presidency falls vacant, the president of the Senate assumes the office until a new election can be held within 20–35 days. The president appoints the prime minister and, on the prime minister’s recommendation, the other members of the cabinet. The president has the power to dissolve the National Assembly, in which event new elections must be held in 20–40 days. When the national sovereignty is gravely menaced, the president is empowered to take special measures after consultation with the premier and other appropriate officials. The National Assembly, however, may not be dissolved during the exercise of exceptional powers. The president promulgates laws approved by the legislature, has the right of pardon, and is commander of the armed forces.

The bicameral parliament consists of two houses, the National Assembly and the Senate. Under a system enacted in 1986, the National Assembly is composed of 577 deputies, each representing an electoral district. If no candidate receives a clear majority, there is a runoff among those receiving at least 12.5% of the vote; a plurality then suffices for election. All citizens aged 18 or over are eligible to vote.

The deputies’ term of office, unless the Assembly is dissolved, is five years. The Senate consisted, as of September 1986, of 321 members indirectly elected to nine-year terms, one-third being chosen every three years. Of the total, 296 represented metropolitan France, 13, overseas departments and territories, and 12, French citizens residing abroad; all are chosen by electoral colleges. In addition, European elections are held to choose 87 French deputies out of 626 in the European Parliament every five years, with proportional representation.

To become law, a measure must be passed by parliament. Parliament also has the right to develop in detail and amplify the list of matters on which it may legislate by passing an organic law to that effect. Regular parliamentary sessions occur once a year, lasting nine months each (amended in 1995 from two shorter sessions a year). A special session may be called by the prime minister or at the request of a majority of the National Assembly. Bills, which may be initiated by the executive, are introduced in either house, except finance bills, which must be introduced in the Assembly. These proceedings are open to the public, aired on television, and reported.

The prime minister and the cabinet formulate national policy and execute the laws. No one may serve concurrently as a member of parliament and a member of the executive. Under certain circumstances, an absolute majority in the National Assembly may force the executive to resign by voting a motion of censure. Under the new law of 1993, members of the government are liable for actions performed in office deemed to be crimes or misdemeanors, and tried by the Court of Justice.

### 14 POLITICAL PARTIES

French political life has long been ruled both by considerations of political theory and by the demands of political expediency. Traditional issues such as the separation of church and state help to distinguish between right and left, but otherwise the lines separating all but the extremist political parties are difficult to draw. One result of this has been the proliferation of political parties, another the assumption by political parties of labels that seldom indicate any clear-cut platform or policy.

Broadly, since the late 1950s, French politics has been dominated by four political groups: the Gaullists, an independent center-right coalition, the Socialists, and the Communists. After the parliamentary elections of 23 and 30 November 1958, the first to be held under the constitution of the Fifth Republic, the largest single group in the Assembly was the Union for the New Republic (UNR), which stood for the policies of Gen. de Gaulle, elected president of the republic for a seven-year term in 1958. Independents of the right were the second-largest group, and the Christian Socialists (Mouvement Républicain Populaire) and several leftist groups followed. Only 16 members were elected by the center groups, and only 10 Communists.

In the November 1962 elections, the Gaullist UNR scored an unparalleled victory, polling 40.5% of the total votes cast. As a result of the elections, several old parliamentary groups disappeared, and new groups emerged: the Democratic Center (Centre Démocratique) with 55 seats; the Democratic Rally (Rassemblement Démocratique), 38 seats; and the Independent Republicans (Républicains Indépendants—RI), 33 seats. The UNR and the Democratic Workers Union (Union Démocratique du Travail—UDT), left-wing Gaullists, agreed to a full merger of their parties and together controlled 219 seats.

In the first presidential elections held by direct universal suffrage in December 1965, President de Gaulle was reelected on the second ballot with 55.2% of the total vote. In the March 1967 general elections, the UNR-UDT gained 246 seats against the Socialists’ 116 and the Communists’ 73. Following nationwide strikes and civil disturbances by workers and students in the spring of 1968, new parliamentary elections were held in June, in which de Gaulle’s supporters won a sweeping victory.

The Union for the Defense of the Republic (Union pour la Défense de la République—UDR) emerged as the new official Gaullist organization. Political movements of the center joined to form the Progress and Modern Democracy group (Centre-PDM), while Socialists and the democratic left united under the Federation of the Left. Of the 487 Assembly seats, the UDR won 292 seats; RI, 61; Federation of the Left, 57; Communists, 34; Centre-PDM, 33; and independents, 10.

On 28 April 1969, following the defeat in a national referendum of a Gaullist plan to reorganize the Senate and regional government, President de Gaulle resigned. He was succeeded by former premier Georges Pompidou, a staunch Gaullist, who won 58% of the vote in elections held on 15 June 1969. During the Pompidou administration, Gaullist control was weakened by an alliance between the Communist and Socialist parties. In March 1973 elections, the Gaullist UDR lost 109 seats, falling to 183 of the 490 seats at stake. The Communists and Socialists increased their representation to 72 and 103, respectively. The remaining seats were won by the RI (55) and by centrists, reformists, and unaffiliated candidates (77).

On 2 April 1974, President Pompidou died. In elections held on 5 May, Gaullist candidate and former premier Jacques Chaban-Delmas was defeated, receiving only 15% of the votes cast. The leader of the leftist coalition, François Mitterrand, received over 11 million votes, and Valéry Giscard d'Estaing, the leader of the RI, over 8 million. However, as neither had won a majority, a runoff election was held on 19 May. Giscard, with the help of Gaullist votes, defeated Mitterrand by a margin of 50.7% to 49.3%. Jacques Chirac of the UDR was made premier, with a cabinet made up mainly of RI and UDR members.

A new Gaullist party, the Rally for the Republic (Rassemblement pour la République—RPR), founded by Chirac in 1976, received 26.1% of the vote in the second round of the 1978 legislative elections, winning 154 seats in the National Assembly. That year, the centrist parties had formed the Union for French Democracy (Union pour la Démocratie Française—UDF). The federation, which included the Republican Party (Parti Républicain), the successor to the RI, won 23.2% of the vote in the second round of balloting, giving the centrist coalition 124 seats in the National Assembly. The Socialists and Communists, who ran on a common platform as the Union of the Left, together won 199 seats (Socialists 113, Communists 86) and 46.9% of the vote. Independents, with the remaining 3.8%, controlled 14 seats, for a total of 491.

In the presidential elections of 26 April and 10 May 1981, Mitterrand received 25.8% of the vote on the first ballot (behind Giscard's 28.3%) and 51.8% on the second ballot, to become France's first Socialist president since the 1930s. Within weeks, Mitterrand called new legislative elections: that June, the Socialists and their allies won 49.2% of the vote and 285 seats, the RPR 22.4% and 88 seats, the UDF 18.6% and 63 seats, the Communists 7% and 44 seats; independents won the remaining 2.8% and 11 seats. In return for concessions on various political matters, four Communists received cabinet portfolios, none relating directly to foreign affairs or national security. The sweeping victory of the left was, however, eroded in March 1983 when Socialist and Communist officeholders lost their seats in about 30 cities in municipal balloting. Meanwhile, the Communists had become disaffected by government policies and did not seek appointments in the cabinet named when a new Socialist prime minister, Laurent Fabius, was appointed in July 1984.

The National Assembly elections held in March 1993 represented a major defeat for the Socialist Party and their allies. The RPR and UDF won 247 and 213 seats, respectively, while the Socialists were reduced to 67 seats. The Communists also suffered losses, securing only 24 seats. Minor parties and independents won 26 seats. In cantonal elections held in March 1985, the candidates of the left won less than 40% of the vote, while candidates on the right increased their share by 10–15%. The Socialists lost 155 of the 579 Socialist seats that were at stake. As a result, the Socialists introduced a new system of proportional voting aimed at reducing their losses in the forthcoming general election of 16 March 1986. The Socialists and their allies nevertheless won only 33% of the vote and 216 seats out of 577 in the expanded National Assembly. The RPR, the UDF, and their allies received 45% of the vote and 291 seats. The Communists, suffering a historic defeat, split the remaining 70 seats evenly with the far-right National Front, which won representation for the first time. The Socialists remained the largest single party, but the coalition led by the RPR and UDF had a majority; on that basis, Mitterrand appointed RPR leader Chirac as prime minister, heading a center-right government. Following his defeat by Mitterrand in the May 1988 presidential election, Chirac resigned and a minority Socialist government was formed.

In 1995, Jacques Chirac was elected president, defeating Socialist Lionel Jospin. In 1997, one year before they were

scheduled, Chirac called for new parliamentary elections, hoping to achieve a mandate to inaugurate his policy of fiscal austerity. Instead, the Gaullists suffered a stunning defeat by the Socialists and Communists, leading to the appointment of Jospin as prime minister. In those elections, held 25 May and 1 June 1997, the Gaullists saw their parliamentary presence decline from 464 seats to 249; the Socialists (and related splinter groups) went from 75 seats to 273; the Communists from 24 to 38; the Greens from no seats to 8; and the far-right National Front maintained its single seat.

Presidential elections were held in April and May 2002, with Jacques Chirac defeating National Front leader Jean-Marie Le Pen in the second round, taking 82.2% of the vote to Le Pen's 17.8%. Jospin had come in third behind Le Pen in the first round, a major defeat for the left. In the National Assembly elections held in June, Chirac's RPR united with the Liberal Democracy party (formerly the Republican Party) to form the Union for the Presidential Majority, and won an overwhelming majority of seats, taking 357 to the Socialists' 140. The National Front failed to win a single seat; the UDF held 29 seats and the Communists took 21. The Greens held only three seats.

## **15 LOCAL GOVERNMENT**

In 1972, parliament approved a code of regional reforms that had been rejected when proposed previously by President de Gaulle in 1969. Under this law, the 96 departments of metropolitan France were grouped into 22 regions. Regional councils composed of local deputies, senators, and delegates were formed and prefects appointed; in addition, regional economic and social committees, made up of labor and management representatives, were created. This system was superseded by the decentralization law of 2 March 1982, providing for the transfer of administrative and financial authority from the prefect to the general council, which elects its own president; the national government's representative in the department is appointed by the cabinet. The 1982 law likewise replaced the system of regional prefects with regional councils, elected by universal direct suffrage, and, for each region, an economic and social committee that serves in an advisory role; the national government's representative in each region, named by the cabinet, exercises administrative powers. The first regional assembly to be elected was that of Corsica in August 1982; the first direct assembly elections in all 22 regions were held in March 1986.

Each of the 96 departments (and four overseas: Martinique, Guadeloupe, Reunion and French Guiana) is further subdivided for administrative purposes into *arrondissements*, cantons, and communes (municipalities). The basic unit of local government is the commune, governed by a municipal council and presided over by a mayor. A commune may be an Alpine village with no more than a dozen inhabitants, or it may be a large city, such as Lyon or Marseille. The majority, however, are small. In 1990, only 235 communes out of 36,551 had more than 30,000 inhabitants; 84% of all communes had fewer than 1,500 inhabitants, and 43% had fewer than 300. (As of 2002, France had 36,763 communes). Most recently the trend has been for the smallest communes to merge and create larger urban communities, or to come together as communal syndicates to share responsibilities. Municipal councilors are elected by universal suffrage for six-year terms. Each council elects a mayor who also serves as a representative of the central government. Several communes are grouped into a canton, and cantons are grouped into *arrondissements*, which have little administrative significance.

## **16 JUDICIAL SYSTEM**

There are two types of lower judicial courts in France, the civil courts (471 *tribunaux d'instance* and 181 *tribunaux de grande instance* in 1985, including overseas departments) and the criminal courts (*tribunaux de police* for petty offenses such as

parking violations, tribunaux correctionnels for criminal misdemeanors). The function of the civil courts is to judge conflicts arising between persons; the function of the criminal courts is to judge minor infractions (contraventions) and graver offenses (délits) against the law. The most serious crimes, for which the penalties may range to life imprisonment, are tried in assize courts (cours d'assises); these do not sit regularly but are called into session when necessary. They are presided over by judges from the appeals courts. In addition, there are special commercial courts (tribunaux de commerce), composed of judges elected among themselves by tradesmen and manufacturers, to decide commercial cases; conciliation boards (conseils de prud'hommes), made up of employees and employers, to decide their disputes; and professional courts with disciplinary powers within the professions. Special administrative courts (tribunaux administratifs) deal with disputes between individuals and government agencies. The highest administrative court is the Council of State (Conseil d'État).

From the lower civil and criminal courts alike, appeals may be taken to appeals courts (cours d'Appel), of which there were 27 in 2003. Judgments of the appeals courts and the courts of assize are final, except that appeals on the interpretation of the law or points of procedure may be taken to the highest of the judicial courts, the Court of Cassation in Paris. If it finds that either the letter or spirit of the law has been misapplied, it may annul a judgment and return a case for retrial by the lower courts. The High Court of Justice (Haute Cour de Justice), consisting of judges and members of parliament, is convened to pass judgment on the president and cabinet members if a formal accusation of treason or criminal behavior has been voted by an absolute majority of both the National Assembly and the Senate. The death penalty was abolished in 1981.

The Conseil Constitutionnel, created by the 1958 Constitution, is now the only French forum available for constitutional review of legislation. Challenges to legislation may be raised by the president of the republic, the prime minister, the president of the Senate, the president of the National Assembly, sixty senators, or sixty deputies of the National Assembly during the period between passage and promulgation (signature of president). Once promulgated, French legislation is not subject to judicial review.

The French judiciary is fully independent from the executive and legislative branches. The judiciary is subject to European Union mandates, which guide national law. This has been the case in the Court of Cassation since 1975, in the Council of State since 1989, and now even in the civil courts.

## 17 ARMED FORCES

In 2002 there were 260,400 active personnel in the armed services including 23,660 women. An additional 101,399 served in the Gendarmerie Nationale, which is heavily armed. Reserves totaled 100,000 divide into all services. In 2000 the military budget was \$46.5 billion and in 2002 defense spending amounted to 2.6% of GDP.

The strategic nuclear forces maintained 7,000 personnel, mostly in the navy and air force but also as part of the gendarmerie. The army numbered 137,000 including 12,500 women. There were 8,000 members of the foreign legion and 14,700 marines as part of the French army. Equipment included more than 1,200 main battle tanks. The French have the third largest nuclear arsenal in the world; suspected total nuclear strength is 482 weapons.

The French navy numbered 45,600 in 2002 and was equipped with 10 modern submarines, 35 surface combatants, and around 75 other ships for mine warfare, amphibious operations, underwater replenishment, and intelligence operations. France had 6,800 naval aviators, among them were 480 women. There were 1,700 marines including 500 commandos. The navy also provided coast guard services and fishery protection. The French

air force numbered 64,000 personnel, including close to 7,000 women, and had an inventory of 449 combat aircraft.

France maintains substantial forces abroad in its colonies and protectorates, supported by two deployed naval squadrons in the Indian Ocean and Pacific. France has substantial garrisons in Antilles-Guyana, New Caledonia, Réunion Island, and Polynesia, and it provides military missions and combat formations to seven African nations. Troops are deployed on peacekeeping missions to 12 different regions.

## 18 INTERNATIONAL COOPERATION

France is a charter member of the UN, having joined on 24 October 1945, and actively cooperates in ECE, ECLAC, ESCAP, and all the non-regional specialized agencies; it is one of the five permanent members of the Security Council. France is also a founding member of the EU. Although France still belongs to NATO, in 1966 the nation withdrew its personnel from the two integrated NATO commands—Supreme Headquarters Allied Powers Europe (SHAPE) and Allied Forces Central Europe (AFCENT). France is a member of the Asian Development Bank, Council of Europe, OAS (as a permanent observer), OECD, various community commissions and groups, and other intergovernmental organizations. In all, France belongs to more international governmental and nongovernmental organizations than any other country in the world. France is also a signatory of the Law of the Sea and a member of the WTO.

## 19 ECONOMY

France is one of the most richly endowed countries of Europe. The favorable climate, extensive areas of rich soil, and long-established tradition of skilled agriculture have created ideal conditions for a thriving farm economy. Large deposits of iron ore, a well-integrated network of power plants, important domestic reserves of natural gas, good transport, and high standards of industrial workmanship have made the French industrial complex one of the most modern in Europe.

After World War II, France enjoyed an economic climate superior to that of the best interwar years. But on the debit side were the extremely high cost of France's colonial campaigns in Indochina and North Africa; the periodic lack of confidence of French investors in the nation's economy, resulting in the large-scale flight of funds; and the successive devaluations of the franc.

Through most of the 1960s and early 1970s, the French economy expanded steadily, with GDP more than doubling between 1959 and 1967. However, the international oil crisis of 1974 led to a sharp rise in import costs; the resulting inflation eroded real growth to about 3% annually between 1977 and 1979. Further oil price increases in 1979–80 marked the beginning of a prolonged recession, with high inflation, high unemployment, balance-of-payments deficits, declining private investment, and shortages in foreign exchange reserves. However, GDP grew by an annual average of 2.5% between 1984 and 1991. During the early 1990s, GDP expanded by an average 2%, a modest rate. By the late 1990s, however, the economy began to record higher growth rates. In 1998 the French economy grew by 3.3% in real terms. Unemployment, however, remained high at 11.5%. To combat this, the Socialist-led coalition of Lionel Jospin enacted legislation cutting the work week to 35 hours in 2000. This measure, along with other incentives, resulted in unemployment falling under 10% as over 400,000 new jobs were created in the first half of 2000.

As of 2002, GDP growth was low (1%), due to the global economic slowdown and a decline in investment. However, France's exports increased at a greater rate than imports, fueling the economy. France in 2002 fell from being the world's fourth-largest economy to fifth, being replaced by the United Kingdom. Government debt was projected to rise above 60% of GDP in 2003, and the deficit was forecast to reach 3.5% of GDP,

exceeding the 3% of GDP limit set by the EU. France and the United States are the world's top two exporting countries in defense products, agricultural goods, and services. Taxes remain the highest in the G-7 industrialized countries, and the tax structure was seen as a hindrance to business activity. The fastest-growing sectors of the economy in 2002 were consulting services, meat and milk products, public works, insurance and financial services, and recreation, culture, and sports. Although the government has privatized many large companies, banks, and insurers, it still controls large sectors of the economy, including energy, transportation, and the defense industry. Pension reforms proposed by the government of Jean-Pierre Raffarin in early 2003 were met by huge protests and strikes in France, and the possibility of President Jacques Chirac replacing his prime minister due to the unrest was real.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 France's gross domestic product (GDP) was estimated at \$1.54 trillion. The per capita GDP was estimated at \$25,700. The annual growth rate of GDP was estimated at 1.1%. The average inflation rate in 2002 was 1.8%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 3% of GDP, industry 26%, and services 71%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$679 million or about \$12 per capita and accounted for approximately 0.1% of GDP. Worker remittances in 2001 totaled \$716.2 million.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$16,595. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 2%. Approximately 22% of household consumption was spent on food, 9% on fuel, 3% on health care, and 8% on education. The richest 10% of the population accounted for approximately 25.1% of household consumption and the poorest 10% approximately 2.8%.

## 21 LABOR

In 2001, an estimated 26.6 million persons were active in the French economy. In 1997, 71% of the workforce was employed in the service sector, with 25% in industry and 4% in agriculture. As of 2002, the unemployment rate averaged 9%.

The oldest major labor organization, dating from 1895, is the communist-dominated *Confédération Générale du Travail* (CGT), an affiliate of the WFTU. The *Confédération Générale du Travail—Force Ouvrière* (CGT-FO), was founded in 1948 as a splinter group of the CGT. Affiliated with the ICFTU, the CGT-FO draws its membership principally from white-collar workers and civil servants. Another labor group, the *Confédération Française Démocratique du Travail*, split from the *Confédération Française de Travailleurs Chrétiens* (CFTC) at a union congress in November 1964. The CFTC regrouped around those minorities wishing to continue the traditions of Christian unionism. Among the smaller labor groups are the *Fédération Nationale des Syndicats d'Exploitants Agricoles*; the *Fédération de l'Éducation Nationale*, the *Confédération des Syndicats Libres*; and the *Confédération Française de l'Encadrement*, a union of managerial and highly skilled technical personnel.

Although less than 10% of the workforce was unionized as of 2002, trade unions have significant influence in the country. Workers freely exercise their right to strike unless it is prohibited due to public safety. Many unions are members of international

labor organizations. Collective bargaining is prevalent. It is illegal to discriminate against union activity.

The government determines the minimum hourly rate, which was the equivalent of \$6.25 as of 2002. This amount provides a decent standard of living for a family. The standard legal workweek is set at 35 hours with restrictions on overtime. Children under age 16 are not permitted to work, and there are restrictions pertaining to employment of those under 18. Child labor laws are strictly enforced. The labor code and other laws provide for work, safety, and health standards.

## 22 AGRICULTURE

Agriculture remains a vital sector of the French economy, even though it engages only about 4% of the labor force and contributes about 3% of the GDP. Since the early 1970s, the agricultural labor force has diminished by about 60%. France, whose farms export more agricultural food products than any other EU nation (accounting for 22% of the EU's total agricultural output), is the only country in Europe to be completely self-sufficient in basic food production; moreover, the high quality of the nation's agricultural products contributes to the excellence of its famous cuisine. France is one of the leaders in Europe in the value of agricultural exports—chiefly wheat, sugar, wine, and beef. Tropical commodities, cotton, tobacco, and vegetable oils are among the chief agricultural imports.

As of 1998 35% of France's area was arable. About 11.8 million ha (29.1 million acres) of the usable farm area is under annual crops, with another 228,000 ha (563,000 acres) in permanent crops. There were 735,000 farms in France in 1995, of which only 454,000 were managed by full-time farmers. Since the 1950s, the number of farms has declined and the size of individual holdings has increased. By 1983 there were about 1.13 million farms, as compared to 2.3 million in 1955, and the average farm size was about 26 hectares (64 acres). Average farm size had grown to around 50 ha (124 acres) in 2000. Because French law provides for equal rights of inheritance, traditionally much of the farmland came to be split up into small, scattered fragments. One of the major aims of postwar plans for rural improvement has been the consolidation of these through reallocation. Such consolidation also fosters the growth of mechanization. In 1998 there were 1,270,000 tractors (fourth in the world after the United States, Japan, and Italy) compared with 100,000 in 1948, and 1,327,900 in 1974.

Of the total productive agricultural area, about 61% is under cultivation, 35% is pasture, and 4% vineyards. The most productive farms are in northern France, but specialized areas, such as the vegetable farms of Brittany, the great commercial vineyards of the Languedoc, Burgundy, and Bordeaux districts, and the flower gardens, olive groves, and orchards of Provence, also contribute heavily to the farm economy.

Among agricultural products, cereals (wheat, barley, oats, corn, and sorghum), industrial crops (sugar beets, flax), root crops (potatoes), and wine are by far the most important. In 1999, the wheat crop totaled 37,009,000 tons and barley, 9,548,000 tons. Other totals (in tons) included oats, 550,000; corn, 15,628,000; sugar beets, 32,776,000; rapeseed, 4,469,000 tons; and sunflower seed, 1,871,000 tons. Wine production in 1999 totaling 6,625,000 tons from 8,001,000 tons of grapes. There is large-scale production of fruits, chiefly apples, pears, peaches, and cherries.

## 23 ANIMAL HUSBANDRY

In 2001, farm animals included 20.5 million head of cattle, 15.4 million swine, 10.7 million sheep and goats, and 343,000 horses. Poultry and rabbits are raised in large numbers, both for farm families and for city markets. Percheron draft horses are raised in northern France, range cattle in the central highlands and the flatlands west of the Rhône, and goats and sheep in the hills of

the south. Meat production in 2001 included 1,566,000 tons of beef and veal, 2,315,000 tons of pork, 2,215,000 tons of poultry, and 134,000 tons of mutton. Exports of meat were valued at \$8.3 billion in 2001.

Dairy farming flourishes in the rich grasslands of Normandy. Total cows' milk production in 2001 was 24,903,000 tons. France produces some 300 kinds of cheese; in 2001, production totaled about 1,770,000 tons. Butter and egg production were 449,000 and 1,016,000 tons, respectively. Dairy and egg exports generated \$3.6 billion in 2001.

## 24 FISHING

France's 4,716 km (2,930 mi) of coastline, dotted with numerous small harbors, has long supported a flourishing coastal and high-seas fishing industry. The total catch for 2000 was 596,296 tons. French aquaculture consists mainly of oyster and mussel production; most of the facilities are located along the English Channel and the Atlantic coasts.

Herring, skate, whiting, sole, mackerel, tuna, sardines, lobsters, and mussels make up the principal seafood catch, along with cod, mostly from the fishing banks off northern North America, where French fishing vessels have sailed for centuries. Exports of canned seafood products in 2000 totaled \$228.3 million, mostly tuna, mackerel, and sardines.

Total imports of seafood products in 2000 were valued at \$2.9 billion, while exports were valued at \$1.1 billion. The United Kingdom and Norway are France's leading seafood suppliers.

## 25 FORESTRY

Forestry production in France has been encouraged by the government since the 16th century, when wood was a strategic resource in building warships. Although much of the original forest cover was cut in the course of centuries, strict forest management practices and sizable reforestation projects during the last 100 years have restored French forests considerably. Since 1947, the government has subsidized the afforestation and replanting of 2.1 million hectares (5.2 million acres) of forestland along with thousands of miles of wood transport roads. The reforestation project in the Landes region of southwestern France has been particularly successful. During 1990–2000, the forested area increased by an annual average of 0.4%. About 66% of the forestland is covered with oak, beech, and poplar and 34% with resinous trees. There were some 15.3 million hectares (37.9 million acres) of forest in 2000, amounting to 28% of France's total area. This makes France the third most forested country in the EU, behind Sweden and Finland. The forestry and wood products sector employed 257,000 persons in 35,000 companies in 2000.

Production of roundwood in 2001 was 50.17 million cu m (1.77 billion cu ft), and was supplemented with 2.17 million cu m (76.6 million cu ft) of roundwood imports. Particleboard production reached 3.8 million cu m (134 million cu ft) that year, while plywood panel production amounted to 561,000 cu m (19.8 million cu ft). Trade in forestry products in 2001 amounted to \$2.4 billion in imports and \$1.9 billion in exports.

In December 1999, a hurricane hit France and damaged an estimated 50 million cu m (1.8 billion cu ft) of trees, with 31 million cu m (1.1 billion cu ft) in public forests.

## 26 MINING

France was a major European mineral producer, despite significant declines in the production of traditional minerals in recent years—mining production in 2000 was at 76% of 1990 levels. France was among the leading producers of coal, was Europe's only producer of andalusite, and counted iron among its top export commodities in 2002. France was also self-sufficient in salt, potash, fluorspar, and talc. Talc de Luzenac, a subsidiary of Rio Tinto, was the leading producer of talc in the world. In

addition, France had sizable deposits of antimony, bauxite, magnesium, pyrites, tungsten, and certain radioactive minerals. One of the world's most developed economies, France had to make considerable changes in the structure of its industries, particularly those mineral industries controlled by the state. Prior to 2000, the state's heavy economic and political involvement was a main element of national mineral policy. Cessation of government subsidies to unprofitable operations, cheaper foreign sources, and depletion of mineral reserves have greatly affected the industry, particularly bauxite, coal, iron ore, lead, uranium, and zinc. The government has made efforts to promote the private sector, to proceed with a program of privatization, and to reduce the dependence of state-owned companies on subsidies. To encourage exploration, the government in 1995 passed a law expediting the granting of surveying and mining licenses.

Production figures for 2000 were: stone, sand, and gravel (including agricultural and industrial limestone), 183.5 million tons; hydraulic cement, 20 million tons; potash, 360,000 tons, down from 725,000 in 1997; salt (rock, refined brine, marine, and in solution), 6.8 million tons; crude gypsum and anhydrite, 4.5 million tons (France was one of Europe's largest producers of gypsum, with two-thirds coming from the Paris Basin); marketable kaolin and kaolinitic clay, 380,000 tons; crude feldspar, 642,000 tons; marketable fluorspar, 105,000 tons; barite, 51,000 tons, down from 76,000 in 1999; kyanite, andalusite, and related materials, 65,000 tons; mica, 10,000 tons; and crude and powdered talc (significant to the European market), 650,000 tons. In 2000, France also produced copper; gold; silver; powder tungsten; uranium; sponge zirconium; elemental bromine; ball and refractory clays; diatomite; lime; nitrogen; mineral, natural, and iron oxide pigments; Thomas slag phosphates; pozzolan and lapilli; and soda ash and sodium sulfate. No iron ore was produced in 1999 and 2000; the iron ore basin, stretching from Lorraine northward, used to produce more than 50 million tons per year, but its high phosphorus and low iron content limited its desirability. Terres Rouges Mine, the last to operate in Lorraine, closed in 1998. France ceased producing bauxite (named after Les Baux, in southern France) in 1993. Mining of lead and zinc has completely ceased.

## 27 ENERGY AND POWER

Primary energy sources in 2000 were oil, 40% (67% in 1973); coal, 6%; natural gas, 15%; nuclear fuels, 39%; and hydroelectric power, about 7%. Small deposits of petroleum are located mainly in the Landes region. Crude oil production was 2.7 million tons in 1968; in the next two decades, production fell somewhat. By 1994 production had revived, to 2.8 million tons. In 2001, crude oil production was 28,000 barrels per day. Like its oil resources, France's coal and natural gas reserves are very limited. Production of natural gas totaled 2 billion cu m (70 billion cu ft) in 1999, meeting only a small fraction of domestic requirements. France imported 36.2 billion cu m (1.28 trillion cu ft) of liquefied natural gas (LNG) in 1999.

During the 1950s France became increasingly dependent on outside sources for petroleum. Although petroleum and natural gas continued to be produced in France itself (as they are today), the nation came to rely almost entirely on imports from oil fields of the Middle East, putting a heavy strain on the country's foreign exchange reserves. Discoveries of large supplies of natural gas and petroleum in the Sahara Desert changed the outlook radically; in 1967 France was able to meet almost half its fuel needs from countries within the franc zone. Petroleum production from the Saharan fields rose spectacularly from 8.7 million tons in 1960 to 53 million tons in 1970. Although France lost title to the Saharan deposits after Algerian independence, arrangements were made with the Algerian government to keep up the flow of oil to France.



Developments in the 1970s exposed the limitations of this strategy. Algeria took controlling interest in French oil company subsidiaries in 1971. The oil shocks of the mid- and late 1970s drove France's fuel and energy imports up; in 1975, fuel imports accounted for 22.9% of all imports. In response, France began an energy conservation program, but oil consumption continued to increase between 1973 and 1980, when fuel imports made up 26.6% of total imports. As of 2001, oil consumption was 2 million barrels per day, of which 1.9 million were imported. In the same year, France's oil reserves were estimated at 240 million barrels. Mergers involving France's top oil companies in 1999 and 2000 created the fourth-largest oil company in the world, TotalFinaElf.

The burden of fossil fuel alternatives falls mainly, but not entirely, on nuclear power. France has become the world's leading producer of nuclear power per capita, with the world's second-greatest nuclear power capacity (exceeded only by the United States). Like other forms of power production and distribution, atomic energy is controlled by the state. In the late 1990s, nuclear power was still a subject of heated national debate as public opinion turned against the former goal of 100% nuclear-powered energy. France is Europe's second-largest power market, exceeded only by Germany. In 2001, total installed power capacity was 111.3 million kW. Most major generating plants are administered by Électricité de France, the state-owned power authority, which produces and distributes over 95% of the country's electricity. Of the total power production of 511.1 billion kWh in 2000, over 77% came from France's 57 nuclear plants, about 13% from hydroelectric power, and under 10% from fossil fuels.

A tidal power plant has been in operation at Rance, in Brittany, since 1967, and the world's first solar furnace was built at Odeillo in 1969. In addition, some dwellings were being equipped with solar converters, and some were being at least partially heated by geothermal sources. Since 1914, Paris has been burning its garbage to provide heat; by 1981, trash burning was supplying over 30% of the city's heating needs.

## 28 INDUSTRY

Industry has expanded considerably since World War II, with particularly significant progress in the electronics, transport, processing, and construction industries. France is the fourth-leading industrial power, after the US, Japan, and Germany (although France was surpassed by the United Kingdom in 2001 as the world's fourth largest economy). In 2002, the industrial sector accounted for 26% of GDP and around 25% of the labor force. Manufacturing accounted for 16%, construction 4%, and energy generation 3% of GDP in 2001. Manufacturing accounts for around three-quarters of total exports of goods and services, which amounted to 29% of GDP in 2000. The state has long played an active role in French industry, but government involvement was greatly accelerated by a series of nationalization measures enacted by the Socialists in 1982. By 1983, about one-third of French industry—3,500 companies in all—was under state control. However, there was some privatization during 1986–88, later resumed in 1993, with 21 state-owned industries, banks, and insurance companies scheduled to be sold. Although substantial progress had been made in privatization in 2001, the government still controlled such industries as aeronautics, defense, automobiles, energy, and telecommunications.

The steel industry, which employed some 77,300 workers in 1991 (down from 156,000 in 1979), suffered from the impact of worldwide recession in the early 1980s. In 1995, production totaled 18 million tons of crude steel, placing France 11th in world production. Production has been down by a third since 1994 because of international competition and a general shift away from steel to aluminum and plastics. The French aluminum industry is dominated by a factory in Dunkirk owned by Pechiney, which was privatized at the end of 1995.

In 1995, the French automotive industry, ranked fourth in the world, directly employed 350,000 workers and contributed indirectly to almost 2.6 million jobs. Over 3,628,000 passenger cars were produced in 2001, and over 55,000 commercial vehicles were produced in 2000. The two leading companies are PSA (which controls the Peugeot and Citroen brands) and Renault, the latter state-owned. Approximately 60% of production is exported helping the automotive industry to post a \$6 billion trade surplus in 1995. The domestic market, however, has fallen prey to foreign competitors, especially from Germany and Japan, forcing the French auto makers to make greater use of robots, layoff workers, and open plants abroad.

The French aircraft industry, not primarily a mass producer, specializes in sophisticated design and experimental development. Some of its models, such as the Caravelle and the Mirage IV, have been used in over 50 countries. Aérospatiale, among the world's leading makers of commercial aircraft, became a state company after World War II. The Airbus program dominates civil aeronautics.

The chemical industry, although not as strong its rivals in Germany and the US, ranks fourth in the world employing nearly 300,000 and generating over \$70 billion in revenues.

In 1994, the pharmaceuticals, perfume, and cosmetics industry employed 195,000, and posted a trade surplus of \$6.4 billion. The electrical and electronics industry employed 330,000 workers in 1994 and had a turnover of \$59.2 billion. The textile industry employed 300,000 workers in 1994. The food processing industry is a major force in the French economy, producing a considerable trade surplus of \$6.2 billion in 1995. Cooperative ventures are particularly important to the food industry, representing 16% of turnover and 11% of food industry jobs. Trade surplus in dairy products was \$2.6 billion in 1995. In 1994, France produced 54.6 million hectoliters of wine, making it the world's second-largest producer after Italy.

The great concentrations of French industry are in and around Paris, in the coal basin of northern France, in Alsace and Lorraine, and around Lyon and Clermont-Ferrand. French industry, in general, is strong on inventiveness, inclined toward small-scale production of high-quality items, and reluctant in many branches to adopt modern methods of mass production. The French government offers subsidies and easy credit to firms undertaking relocation, reconversion, or plant modernization.

Agribusiness is an increasingly important industry, supplying France's vast number of restaurants and hotels.

## 29 SCIENCE AND TECHNOLOGY

French inventors played a pivotal role in the development of photography and the internal combustion engine; to French ingenuity the world also owes the first mechanical adding machine (1642), parachute (1783), electric generator (1832), refrigerator (1858), and neon lamp (1910). French industry has pioneered in the development of high-speed transportation systems—notably the supersonic Concorde and the TGV high-speed train—and French subway companies have built or provided equipment for mass-transit systems in Montreal, Mexico City, Rio de Janeiro, and other cities.

France is a leading exporter of nuclear technology and has developed the first commercial vitrification plant for the disposal of radioactive wastes by integrating them in special glass and then encasing the glass in stainless steel containers for burial. In 1965, France was the third nation, after the former USSR and the United States, to launch its own space satellite. The French no longer launch their own satellites, however, preferring instead to contribute to the European Space Agency.

The Académie des Sciences, founded by Louis XIV in 1666, consists of eight sections: mathematics, physics, mechanics, astronomy, chemistry, cellular and molecular biology, animal and plant biology, and human biology and medical sciences. The

Centre National de la Recherche Scientifique (CNRS), founded in 1939, controls more than 1,370 laboratories and research centers. In 1996, the CNRS employed 19,391 researchers and engineers and 7,263 technicians and administrative staff. In addition, there are well over 100 other scientific and technological academies, learned societies, and research institutes. In 1995, France's total research and development expenditures amounted to 190 billion francs, or 25% of GDP. In 1987–97, research and development expenditures equaled 2.3% of GNP. In 1998, high-tech exports were valued at \$54.2 billion and accounted for 23% of manufactured exports. Research and development personnel in 1987–97 numbered 2,659 scientists and engineers and 2,873 technicians per million people.

France has a large number of universities and colleges that offer courses in basic and applied sciences. The Palais de la Découverte in Paris (founded in 1937) is a scientific center for the popularization of science. It has departments of mathematics, astronomy, physics, chemistry, biology, medicine, and earth sciences, and includes a planetarium and cinema. A similar Parisian facility is the Cité des Sciences et de l'Industrie (founded in 1986). The city also has the Musée National des Techniques (founded in 1794) and the Musée de l'Air et de l'Espace (founded in 1919). In 1987–97, science and engineering students accounted for 37% of university enrollment.

### 30 DOMESTIC TRADE

The heart of French commerce, both domestic and foreign, is Paris. One-third of the country's commercial establishments are in the capital, and in many fields Parisian control is complete. The major provincial cities act as regional trade centers. The principal ports are Marseille, for trade with North Africa and with the Mediterranean and the Middle East; Bordeaux, for trade with West Africa and much of South America; and Le Havre, for trade with North America and northern Europe. Dunkerque and Rouen are important industrial ports.

The trend away from traditional small retailers is seen as a threat to tradition and, in some areas of the country, government assistance is offered to small retailers. Even so, larger retail outlets and hypermarkets are gaining ground. Mail order sales and specialty chain stores have also grown. In 1999, metropolitan France had about 30,000 wholesale enterprises. In 2000, there were 5,863 supermarkets. In 2002, there were about 107 department stores. Among the 50 largest commercial companies in France are the department stores Au Printemps and Galeries Lafayette. A value added tax of 19.6% applies to most goods and services.

Business hours are customarily on weekdays from 9 AM to noon and from 2 to 6 PM. Normal banking hours are 9 AM to 4 PM, Monday–Friday. Most banks are closed on Saturdays; to serve a particular city or larger district, one bank will usually open Saturday mornings from 9 to noon. Store hours are generally from 10 AM to 7 PM, Monday through Saturday. Most businesses close for three or four weeks in August.

Advertising in newspapers and magazines and by outdoor signs is widespread. A limited amount of advertising is permitted on radio and television. Trade fairs are held regularly in Paris and other large cities.

### 31 FOREIGN TRADE

Leading French exports, by major categories, are capital goods (machinery, heavy electrical equipment, transport equipment, and aircraft), consumer goods (automobiles, textiles, and leather), and semi-finished products (mainly chemicals, iron, and steel). Major imports are fuels, machinery and equipment, chemicals and paper goods, and consumer goods.

The French trade balance was favorable in 1961 for the first time since 1927, but after 1961 imports rose at a higher rate than exports. Trade deficits generally increased until the 1990s. From

1977 to 1985, the trade deficit nearly tripled. Among factors held responsible were heavy domestic demand for consumer products not widely produced in France, narrowness of the range of major exports, and a concentration on markets not ripe for expansion of exports from France, notably the EU and OPEC countries. In the following years a growing change in the trade balance developed, and the deficit narrowed appreciably in 1992. By 1995, France had a trade surplus of \$34 billion. In all, France is the world's fourth largest exporter of goods and the second largest provider of services and agriculture. France is the largest producer and exporter of farm products in Europe.

Garnering the highest revenues of export commodities from France are transport machinery, including automobiles, vehicle parts, and aircraft (12.5%). French wine, perfumes, and cosmetics represent about a quarter each of the world market in their respective categories. The top ten exports in 2000 were as follows:

	% OF COUNTRY TOTAL
Automobiles	6.4
Aircraft	5.5
Motor vehicle parts and accessories	4.1
Telecommunications equipment	3.9
Iron and steel	3.3
Medicinal and pharmaceutical products	3.4
Office machines, automatic data processing equipment	3.3
Alcoholic beverages	2.4
Textiles	2.3
Perfumery and cosmetics	1.9

In 2000 France's imports were distributed among the following categories:

Consumer goods	16.7%
Food	6.8%
Fuels	9.8%
Industrial supplies	27.1%
Machinery	23.9%
Transportation	15.6%
Other	0.1%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	45,500	50,388	-4,888
United Kingdom	29,755	24,763	4,992
Spain	29,234	21,120	8,114
Italy	26,945	27,051	-106
United States	26,543	27,364	-821
Belgium	20,956	20,772	184
Netherlands	13,223	14,896	-1,673
Switzerland	10,075	7,019	3,056
China (inc. Hong Kong)	5,250	9,867	-4,617
Japan	5,099	11,751	-6,652

### 32 BALANCE OF PAYMENTS

Between 1945 and 1958, France had a constant deficit in its balance of payments. The deficit was financed by foreign loans and by US aid under the Marshall Plan, which totaled more than \$4.5 billion. A 1958 currency reform devalued the franc by 17.5%, reduced quota restrictions on imports, and allowed for repatriation of capital; these measures, combined with increased tourist trade and greater spending by US armed forces in the franc zone, improved France's payments position. With payments surpluses during most of the 1960s, gold and currency reserve holdings rose to \$6.9 billion by the end of 1967. However, a massive deficit in 1968 led to another devaluation of the franc in 1969, and by 31 December 1969, gold and reserve holdings had

dropped to \$3.8 billion. After surpluses in 1970–72 raised international reserves to over \$10 billion, price increases for oil and other raw materials resulted in substantial negative balances on current accounts in 1973 and 1974; because of this, France required massive infusions of short-term capital to meet its payments obligations. Huge surpluses on the services account led to positive payments balances during 1977–80, when reserves rose by nearly \$9.7 billion. After that, France's trade position deteriorated sharply. Foreign exchange reserves fell from \$27,759 million as of March 1981 to \$14,123 million by March 1983. To meet its payments obligation, France had to secure a \$4 billion standby credit from international banks as well as loans from Saudi Arabia and the EC. During the mid-1980s, the trade deficit generally moderated; the current accounts balance recovered in 1985 from the heavy deficits of the past.

In 1992, the merchandise trade account recorded a surplus of Fr31 billion, a large swing from the Fr30 billion deficit of 1990. Trade in industrial goods (including military equipment) and a surplus in the manufacturing sector (the first since 1986) were responsible for the boost in exports. Economic growth rose throughout 1994 due to exports to English-speaking countries and a strong economy in Europe. Exports of both goods and services significantly contributed to GDP growth in 1995 with exports of goods totaling \$270,400 million and imports totaling \$259,225 million, resulting in a trade balance on goods of \$11,175 million. Exports of services totaled \$97,770 million while imports totaled \$78,530 million, resulting in a balance on services of \$19,240 million.

Although France in recent years has run consistent trade and current account surpluses, the country's trade balance showed a deficit in 2001, the first since 1991. It turned around in 2002.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of France's exports was \$307.8 billion while imports totaled \$303.7 billion resulting in a trade surplus of \$4.1 billion.

The International Monetary Fund (IMF) reports that in 2001 France had exports of goods totaling \$291 billion and imports totaling \$289 billion. The services credit totaled \$80 billion and debit \$62 billion. The following table summarizes France's balance of payments as reported by the IMF for 2001 in billions of US dollars.

<b>Current Account</b>	<b>21</b>
Balance on goods	3
Balance on services	18
Balance on income	15
Current transfers	-15
<b>Capital Account</b>	<b>-0</b>
<b>Financial Account</b>	<b>-32</b>
Direct investment abroad	-83
Direct investment in France	53
Portfolio investment assets	-84
Portfolio investment liabilities	102
Other investment assets	-56
Other investment liabilities	36
<b>Net Errors and Omissions</b>	<b>5</b>
<b>Reserves and Related Items</b>	<b>5</b>

### 33 BANKING AND SECURITIES

The Banque de France, founded in 1800, came completely under government control in 1945. It is the bank of issue, sets discount rates and maximum discounts for each bank, regulates public and private finance, and is the Treasury depository. In 1945, a provisional government headed by Gen. de Gaulle also nationalized France's four largest commercial banks, and the state thus came to control 55% of all deposits. The four banks were Crédit Lyonnais, the Société Générale, the Banque Nationale pour le Commerce et l'Industrie, and the Comptoir

National d'Escompte de Paris. In 1966, the Banque Nationale and the Comptoir merged and formed the Banque Nationale de Paris (BNP).

In 1982, Socialist President François Mitterrand nationalized 39 banks, bringing the state's control over deposits to 90%. Among leading banks nationalized in 1982 was the Crédit Commercial de France, but this bank and Société Générale were privatized in 1987 by the Chirac government. France's (and Europe's) biggest bank is a curiosity. Crédit Agricole, founded at the end of the last century, was for most of its life a federation of rurally-based mutual credit organizations. It has preserved its rural base and plays the leading role in providing farmers with state-subsidized loans. But since 1982 it has been allowed to pursue a policy of diversification, so that farmers today account for only 15% of its customers, and in 1988 it became an unquoted limited company with most of its capital held by the regional entities that make for its federal structure. In 1995 Crédit Agricole was listed as the eighth biggest bank in the world, being preceded by six Japanese banks and HSBC Holdings.

In 1999, BNP and rival Société Générale attempted to take over another private bank, Paribas. Concurrently, BNP was waging a takeover bid for Société Générale, itself. Ultimately, BNP won outright control of Paribas, but only 36.8% of the shares of Société Générale.

La Poste, the postal service, which in France is an independent public entity, also offers financial services and held about 10% of the market in 2002. By virtue of the Banking Act of January 1984, the main regulatory authority for the banking sector is the Commission Bancaire. It is presided over by the governor of the Banque de France. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$300.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$896.5 billion.

Public issues of stocks and bonds may be floated by corporations or by limited partnerships with shares. Publicly held companies that wish their stock to be traded on the exchange must receive prior authorization from the Stock Exchange Commission within the Ministry of Finance. In January 1962, the two principal Paris stock exchanges were merged. The six provincial exchanges specialize in shares of medium-size and small firms in their respective regions.

Measured by stock market capitalization, the Paris Bourse is the third largest in Europe after London and Frankfurt. The Lyon Bourse is the most active provincial stock exchange. MATIF (marché à terme des instruments financiers), the financial futures exchange, was opened in Paris in 1986 and has proved a success. The Société des Bourses Françaises (SBF), the operator of the French stock market, has been determinedly pursuing a policy of reform and modernization, and it expects to benefit from the liberalization of financial services brought about by the EU's Investment Services Directive (ISD). New French legislation, providing for the liberalization of financial services, has transposed the directive into national law.

### 34 INSURANCE

Insurance is supervised by the government directorate of insurance, while reinsurance is regulated by the Ministry of Commerce. In 1946, 32 major insurance companies were nationalized, and a central reinsurance institute was organized. All private insurance companies are required to place a portion of their reinsurance with the central reinsurance institute. In France, workers' compensation, tenants' property damage liability, and third-party automobile liability are among the insurances that are compulsory.

However, as of 1996, the insurance sector was being shifted completely into private hands. Union des Assurances de Paris (UAP), which is France's largest insurance group, was privatized

in 1994. The combining of insurance services with retail banking has become fashionable in recent years, hence the neologism *bancassurance*. Partners in this practice are UAP and BNP. Another development has been to forge alliances across the Rhine in Germany. Assurances Générale de France (AGF), still to be privatized, has chosen this path. Since July of 1994, insurers registered in other European Union (EU) countries have been able to write risks in France under the EU Non-Life Directive.

### 35 PUBLIC FINANCE

The fiscal year runs from 1 January to 31 December. Deficits have been commonplace, but in recent years, efforts have been made to cut back on the growth of taxes and government spending and, since 1986, to remove major state enterprises from the expense of government ownership.

Deficit reduction became a top priority of the government when France committed to the European Monetary Union (EMU). Maastricht Treaty targets for the EMU required France to reduce the government's budget deficit to 3% of GDP by 1997. The government still maintains a fairly tight hold on myriad enterprises, ranging from energy to financial services to industry; government spending accounted for 52% of GDP in 2001.

The US Central Intelligence Agency (CIA) estimates that in 2000 France's central government took in revenues of approximately \$210 billion and had expenditures of \$240 billion. Overall, the government registered a deficit of approximately \$30 billion. External debt totaled \$106 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	210,000
Tax revenue	91.4%	191,855
Non-tax revenue	6.0%	12,568
Capital revenue	1.2%	2,461
Grants	1.5%	3,116
EXPENDITURES	100.0%	240,000
General public services	6.5%	15,607
Defense	5.3%	12,838
Public order and safety	1.3%	3,035
Education	7.0%	16,916
Health	21.7%	52,115
Social security	38.8%	93,183
Housing and community amenities	1.1%	2,747
Recreation, cultural, and religious affairs	0.6%	1,474
Economic affairs and services	8.2%	19,786
Other expenditures	3.3%	8,019
Interest payments	5.9%	14,277

### 36 TAXATION

As with most industrialized democratic systems, France's tax system is complex and nuanced, though also subject to recent movements to reductions and simplifications. The basic corporate income tax rate was for filings in 2003 was 33.33%, with surcharges of 3% (as of January 2002, reduced from 6% in 2001 and from 10% in 1995 when first introduced) and 3.3% (since January 2000, for large companies only), giving an effective rate of 35.43%. For smaller companies with annual revenues less than €7,630,000 and in which individuals own at least 75% of the equity, the basic corporate tax rates in 2002 were 15% (an effective 15.45% with the 3% surcharge and down from 26.5% in 2001) on profits below €38,120, and 33.33% (effective 34.33%, down from 35.33% in 2001) on profits above €38,120. Long-term capital gains were taxed at a basic rate of 19%, with effective rates ranging from 19.57% to 20.20%, in 2002, down

from effective rates of 20.14% to 20.77% in 2001. Short-term capital gains are taxed according to the progressive individual income tax schedule. Above a threshold of €15,000 (up from €7,650 in 2001) were taxed at 26%. The main local tax is the business tax, charged on 84% of a value derived from the rental value of the premises, 16% of the value fixed assets, and 18% of annual payroll, and at rates set by local authorities each year. The business tax (*taxe professionnelle*) varies significantly from place to place, with a range of 0% to 4%.

Individual income tax in France is assessed in accordance with a progressive schedule of statutory rates ranging from 0% (up to €4,121 in 2002) to 52.75% (in 2002, on the increment of annual income above €46,343), with intermediate brackets of 7.5%, 21%, 31%, 41%, and 46.75%. French tax law contains many provisions for exemptions and targeted reductions from taxable income, so that the actual income tax paid is highly individualized. According to a 2002 OECD report, the disposable income of the average production worker was 73.2% of gross pay, and 79% of gross pay for a single-earner married couple with two children. Non-industrial businesses that do not pay value-added taxes on consumption (banks, insurance companies, the medical sector, associations, non-profit organizations, etc.) pay a wage tax to cover social levies assessed according to a three-bracket progressive schedule: 4.25% on the portion of annual wage below €6,460; 8.5% on the portion between €6,460 and €12,900, and 13.6% on the portion above €12,900. Inheritance taxes (succession duties) range from 5% to 60%, as do gift (donations) taxes. There is also a patrimonial tax of 3% on the fair market value of property owned in France, although foreign companies whose French financial assets are more than 50% are exempt. Also, foreign property holders may be exempt according to the terms of a bilateral tax treaty with France. (France is party to a numerous bilateral tax treaties with provisions that can greatly reduce tax liabilities for foreign investors.) Local taxes include a property tax, charged to owners of land and buildings, and a housing tax, charged to occupants of residential premises, assessed according to the rental value of the property. The social security system is operated separately from the general tax system, financed by contributions levied on earned income in accordance with four regimes: a general regime covering 80% of French citizens, a regime for agricultural workers, a special regime for civil servants and railway workers, and a regime for the self-employed. Tax levies have been used, however, to shore up the finances in the social security system.

The main indirect tax is the value-added tax (VAT) first introduced in January 1968. The standard rate in 2003 was 19.6% (down from 20.6% in 1995), and there are two reduced rates: 5.5% on basic foodstuffs, and 2.1% on medicines and newspapers.

### 37 CUSTOMS AND DUTIES

Virtually all import duties are on an ad valorem CIF (cost, insurance, and freight) value basis. Minimum tariff rates apply to imports from countries that extend corresponding advantages to France. General rates, fixed at three times the minimum, are levied on imports from other countries. France adheres to the EU's common external tariff for imports. Most raw materials enter duty-free, while most manufactured goods have a tariff of 5% to 17%. The recession of the early 1980s gave rise to calls for protectionist measures (e.g., against Japanese electronic equipment), but the socialist government remained ostensibly committed to free trade principles. Observers noted, however, that cumbersome customs clearance procedures were being used to slow the entry of certain Japanese imports, notably videotape recorders, to protect French firms. There is a standard 18.6% VAT on most imports, with a reduced rate of 5.5% for basic necessities.

### 38 FOREIGN INVESTMENT

All direct investments in France require advance notification of—and in some cases approval by—the Treasury Department. Investments from other EU countries cannot be refused, but the department may specify whether the investment is to be financed from French or foreign sources. Foreign direct investment (FDI) in France climbed from \$6.5 billion in 1973 to over \$150 billion in 1997. The annual inflow of FDI rose to almost \$31 billion in 1998, up from \$23 billion in 1997. From 1999 to 2002, annual FDI inflows averaged \$47.7 billion. In 2002, FDI inflow was an estimated \$48.2 billion. The major investors were the United States, Germany, and the United Kingdom

### 39 ECONOMIC DEVELOPMENT

Since World War II (1939–45), France has implemented a series of economic plans, introduced to direct the postwar recovery period but later expanded to provide for generally increasing governmental direction of the economy. The first postwar modernization and equipment plan (1947–53) was designed to get the machinery of production going again; the basic economic sectors—coal, steel, cement, farm machinery, and transportation—were chosen for major expansion, and productivity greatly exceeded the target goals. The second plan (1954–57) was extended to cover all productive activities, especially agriculture, the processing industries, housing construction, and expansion of overseas production. The third plan (1958–61) sought, in conditions of monetary stability and balanced foreign payments, to achieve a major economic expansion, increasing national production by 20% in four years. After the successful devaluation of 1958 and an improvement in the overall financial and political situation, growth rates of 6.3% and 5% were achieved in 1960 and 1961, respectively. The fourth plan (1962–65) called for an annual rate of growth of between 5% and 6% and an increase of 23% in private consumption; the fifth plan (1966–70), for a 5% annual expansion of production, a 25% increase in private consumption, and the maintenance of full financial stability and full employment; and the sixth plan (1971–75), for an annual gross domestic product (GDP) growth rate of between 5.8% and 6% and growth of about 7.5% in industrial production. The sixth plan also called for increases of 31% in private consumption, 34% in output, and 45% in social security expenditure.

The seventh plan (1976–80) called for equalization of the balance of payments, especially through a reduction of dependency on external sources of energy and raw materials; a lessening of social tensions in France by a significant reduction in inequalities of income and job hierarchies; and acceleration of the process of decentralization and deconcentration on the national level in favor of the newly formed regions. Because of the negative impact of the world oil crisis in the mid-1970s, the targets of the seventh plan were abandoned in 1978, and the government concentrated on helping the most depressed sectors and controlling inflation.

In October 1980, the cabinet approved the eighth plan (1981–85). It called for development of advanced technology and for reduction of oil in overall energy consumption. After the Socialists came to power, this plan was set aside, and an interim plan for 1982–84 was announced. It aimed at 3% GDP growth and reductions in unemployment and inflation. When these goals were not met and France's international payments position reached a critical stage, the government in March 1983 announced austerity measures, including new taxes on gasoline, liquor, and tobacco, a "forced loan" equivalent to 10% of annual taxable income from most taxpayers, and restrictions on the amount of money French tourists could spend abroad. A ninth plan, established for the years 1984–88, called for reducing inflation, improving the trade balance, increasing spending on

research and development, and reducing dependence on imported fuels to not more than 50% of total energy by 1990. The tenth plan, for 1989–92, gave as its central objective increasing employment. The main emphasis was on education and training, and improved competitiveness through increased spending on research and development.

France adopted legislation for a 35-hour work week in 1998 that became effective in 2000. The object was to create jobs, but the impact of the change on economic growth and development had yet to be assessed as of 2003. Pension reform was being legislated in 2003, amid much popular protest. France's demography is changing, with the active population beginning to decline in 2007—this is due to reduce annual per capita GDP growth. Spending on health care increased in the early 2000s. The general government financial deficit was close to 4% of GDP in 2003, which exceeded the EU limit of 3% of GDP for the second year in a row. Weak growth, high unemployment, and lowered public finances were economic challenges the government faced in 2003. By the mid-1990s, and in line with European Union (EU) policy, French economic policy took a turn away from state dominance and moved toward liberalization. Large shares of utilities and telecommunications were privatized. Moreover, austerity came to the fore in budgetary planning as the government moved to meet the criteria for European Monetary Union. France adopted the euro as its currency in 1999, and discontinued the franc in favor of euro bills and coins in 2002. Government spending, however, was 52.7% of GDP in 2001, among the highest of the G-7 nations. Despite privatization efforts, the state in the early 2000s still owned large shares in corporations in such sectors as banking, energy, automobiles, transportation, and telecommunications.

French loans to its former African territories totaled CFA Fr50 billion by November 1972, when President Pompidou announced that France would cancel the entire amount (including all accrued interest) to lighten these countries' debt burdens. In 1993, France spent \$7.9 billion on international aid, and \$6.3 billion in 1997.

### 40 SOCIAL DEVELOPMENT

France has a highly developed social welfare system. The social security fund is financed by contributions from both employers and employees, calculated on percentages of wages and salaries, and is partially subsidized by the government. Old age insurance guarantees payment of a pension when the insured reaches age 60. Disability insurance pays a pension to compensate for the loss of earnings and costs of care. Survivorship payment recipients must be at least 55 years old and married for two years if there are no children. Unemployment insurance is provided for all workers. Workers' medical benefits are paid directly for all necessary care. Family allowances are paid to those with children and earnings of less than 55% of the minimum wage. There is a child-rearing allowance for those who quit work to raise a second or subsequent child until that child reaches three years of age. There is an allowance for employed parents to pay for child care in their home. Benefits also go to those paying for accredited child care. Special payments are available for caring for a seriously ill or handicapped child. Monthly benefits are paid to families having at least two dependent children and single-parent families. Maternity benefits are payable for six weeks before and 10 weeks after the expected date of childbirth for the first and second child, with increasing benefits.

Equal pay for equal work is mandated by law, although this is not always the case in practice. Men continue to earn more than women and unemployment rates are higher for women than for men. Sexual harassment is illegal in the workplace but the laws are limited and the penalties are modest. Rape and spousal abuse laws are strictly enforced and the penalties are severe. Shelters, counseling, and hotlines are available to victims of sexual abuse and violence.

Religious freedom is provided for by the Constitution. However, large Arab/Muslim, African, and Jewish communities have been subject to harassment and prejudice. Extremist anti-immigrant groups have increasingly been involved in racial attacks. Discrimination on the basis of race, sex, disability, language, religion, or social status is prohibited.

#### 41 HEALTH

Under the French system of health care, both public and private health care providers operate through centralized funding. Patients have the option of seeing a private doctor on a fee basis or going to a state-operated facility. Nearly all private doctors are affiliated with the social security system and the patients' expenses are reimbursed in part. Many have private health insurance to cover the difference. During the 1980s, there was a trend away from inpatient and toward outpatient care, with a growing number of patients receiving care at home. Cost containment initiatives were raised in the 1980s and early 1990s to increase patient contributions and establish global budgets for public hospitals. In 1991, new reforms to strengthen the public sector were initiated. The social security system subsidizes approximately 75% of all health care costs. Pharmaceutical consumption in France is among the highest of all OECD member countries (exceeded only by Japan and the United States). In 1992, the French government imposed a price-fixing mechanism on drugs.

France's birth rate was estimated at 11.9 per 1000 in 2002. A study conducted from 1980 to 1993 indicated that 79% of France's married women (ages 15 to 49) used contraception. The total fertility rate in 2000 was 1.9 children per woman during her childbearing years.

As of 1999, there were an estimated 3 physicians and 8.5 hospital beds per 1,000 people. Life expectancy in 2000 averaged 79 years for men and women. The infant mortality rate was about 4 per 1,000 live births that same year. The overall death rate was an estimated 9.1 per 1,000 people as of 2002. Tobacco consumption decreased from 2.4 kg (5.3 lbs) in 1984–86 to 2.2 kg (4.9 lbs) a year per adult in 1995. Alcohol consumption is the highest in Europe and among the highest in the world.

Efforts to immunize children up to one year old in 1997 were favorable and included: diphtheria, pertussis, and tetanus, 97%; polio, 92%; and measles, 83%. In 1999 there were 16 cases of tuberculosis per 100,000 people.

As of 1999 the number of people living with HIV/AIDS was estimated at 130,000 and deaths from AIDS that year were estimated at 2,000. HIV prevalence was 0.44 per 100 adults.

#### 42 HOUSING

In 2001, there were 29.3 million dwellings nationwide. About 24.3 million were primary residences, three million were second homes, and about two million were vacant. About 58% of all dwellings are detached homes.

After World War II, in which 4.2 million dwellings were destroyed and one million damaged, the government took steps to provide inexpensive public housing. Annual construction rose steadily through the 1950s and 1960s; in 1970–75, housing construction of all types increased by an annual average of more than 6%. In 1975, the total number of new dwellings completed was 514,300. Construction slowed thereafter, and by 1996 the number had declined to 236,270.

In accordance with a law of 1953, industrial and commercial firms employing 10 or more wage earners must invest 1% of their total payroll in housing projects for their employees. These funds can finance either public or private low-cost housing. Concerns must undertake construction of low-cost projects either on their own responsibility or through a building concern to which they supply capital. Special housing allowances are provided for

families who must spend an inordinately large share of their income on rent or mortgages.

#### 43 EDUCATION

The supreme authority over national education in France is the Ministry of Education. Education is compulsory for children from the age of 6 to 16 and is free in all state primary and secondary schools. Higher education is not free, but academic fees are low, and more than half of the students are excused from payment. Virtually the entire adult population is literate. As of 1999, public expenditure on education was estimated at 5.9% of GDP.

Since the end of 1959, private institutions have been authorized to receive state aid and to ask to be integrated into the public education system. In 1999, 15% of elementary-school children and 21% of secondary-level students attended private schools, the majority of which are Roman Catholic. In Brittany, most children attend Catholic schools. Freedom of education is guaranteed by law, but the state exercises certain controls over private educational institutions, nearly all of which follow the uniform curriculum prescribed by the Ministry of Education.

In 1997, there were 4,004,704 pupils in primary schools, with 211,192 teachers. Student-to-teacher ratio stood at 19 to one. In the same year secondary schools enrolled 5,979,690 students and employed 483,493 teachers. As of 1999, 100% of primary-school-age children were enrolled in school, while 93% of those eligible attended secondary school. There are two levels of secondary instruction. The first, the *collège*, is compulsory; after four years of schooling are successfully completed, the student receives a national diploma (*brevet des collèges*). Those who wish to pursue further studies enter either the two-year *lycée d'enseignement professionnel* or the three-year *lycée d'enseignement général et technologique*. The former prepares students for a certificate of vocational competence, the latter for the *baccalauréat*, which is a prerequisite for higher education. Choice of a *lycée* depends on aptitude test results.

All institutions of higher learning had a combined enrollment of 2,062,495 in 1997; teaching staff numbered 141,410. There are 70 public universities within 26 *académies*, which now act as administrative units. Before the subdivision of these 26 units, the oldest and most important included Aix-Marseille (founded in 1409), Besançon (1691), Bordeaux (1441), Caen (1432), Dijon (1722), Grenoble (1339), Lille (1562), Montpellier (1180, reinstated 1289), Nancy-Metz (1572), Paris (1150), Poitiers (1432), Rennes (1735, founded at Nantes 1461), Strasbourg (1538), and Toulouse (1229). The old University of Paris, also referred to as the Sorbonne, was the oldest in France and one of the leading institutions of higher learning in the world; it is now divided into 13 units, only a few of which are at the ancient Left Bank site. There are Catholic universities at Argers, Lille, Lyon, and Toulouse.

Besides the universities and specialized schools (such as *École Normale Supérieure*, which prepares teachers for secondary and postsecondary positions), higher educational institutions include the prestigious *Grandes Écoles*, which include the *École Nationale d'Administration*, *École Normale Supérieure*, *Conservatoire National des Arts et Métiers*, and *École Polytechnique*. Entrance is by competitive examination. Advanced-level research organizations include the *Collège de France*, *École Pratique des Hautes Études*, and *École des Hautes Études en Sciences Sociales*.

#### 44 LIBRARIES AND MUSEUMS

Paris, the leader in all intellectual pursuits in France, has the largest concentration of libraries and museums. The *Bibliothèque Nationale*, founded in Paris in 1480, is one of the world's great research libraries, with a collection of 10.4 million books, as well as millions of manuscripts, prints, maps, periodicals, and other

items of importance (including 11 million stamps and photographs). The libraries of the 13-unit University of Paris system have collective holdings of more than six million volumes, and each major institution of higher learning has an important library of its own. The national archives are located in the Hôtel Rohan Soubise in Paris. In 1997 there were 1,620 central public libraries with a combined total of more than 89.8 million volumes.

There are more than 1,000 museums in France. The Louvre, which underwent an extensive renovation and addition in the 1980s, including the construction of its now-famous glass pyramid, contains one of the largest and most important art collections in the world, covering all phases of the fine arts from all times and regions. The Cluny Museum specializes in the arts and crafts of the Middle Ages. The Museum of Man is a major research center as well. The Centre National d'Art et de Culture Georges Pompidou opened in 1977 on the Beaubourg Plateau (Les Halles). Primarily a museum specializing in contemporary art, it also houses several libraries, children's workshops, music rooms, and conference halls. The Musée d'Orsay, a major new museum housing impressionist and postimpressionist paintings and many other works set in historical context, opened to the public in December 1986 in a former train station. Many of the 19th-century and 20th-century paintings in the Musée d'Orsay had previously been housed in the Musée du Jeu de Paume. There are dozens of libraries and historic sites dedicated to specific French writers and artists, including the Maison de Balzac in Paris, the Musée Calvin in Noyon, the Musée Matisse in Nice, the Musée Rodin in Meydon (there is also a National Museum of Rodin in Paris), and the Musée Picasso in Paris. Most provincial cities have municipal libraries and museums of varying sizes. Many of the great churches, cathedrals, castles, and châteaux of France are national monuments.

#### 45 MEDIA

Postal, telephone, and telegraph systems are operated by the government under the direction of the Ministry of Post, Telegraph, and Telephones. In 1998 there were 34.8 million main line telephones in use, with an additional 11 million mobile cellular phones.

The government-controlled Office de Radiodiffusion-Télévision Française was replaced in January 1975 by seven independent state-financed companies. A law of July 1982 allowed greater independence to production and programming organizations. Under deregulation, many private radio stations have been established. Of the three state-owned television channels, TF-1, the oldest and largest, was privatized in 1987; a fourth, private channel for paying subscribers was started in 1984. Contracts were awarded in 1987 to private consortiums for fifth and sixth channels. As of 1999 there were 41 AM and 800 FM radio stations (many of the FM stations were repeaters) and 310 TV stations. In 2000, there were 950 radios and 628 television sets per 1,000 people. The same year, there were about 304 personal computers for every 1,000 people, with 62 Internet service providers serving about 11.7 million users.

Traditionally, the French press falls into two categories. The *presse d'information*, which newspapers with the largest circulation, emphasizes news; the *presse d'opinion*, usually of higher prestige in literary and political circles but of much lower daily circulation, presents views on political, economic, and literary matters. In 2002, there were over 100 dailies in the country. Some of the important regional papers rival the Parisian dailies in influence and circulation.

The following table lists the estimated average daily circulation in 2002 of the leading newspapers:

	ORIENTATION	CIRCULATION
PARIS		
<i>Le Parisien</i>	Rightist; mass-appeal	457,200
<i>Le Figaro</i>	Moderate conservative	375,000
<i>Le Monde</i>	Independent; elite	368,900
<i>International Herald Tribune</i>	English-language	210,000
<i>France-Soir</i>	Mass-appeal	184,000
<i>L'Humanité</i>	Communist	117,000
<i>La Croix</i>	Catholic	98,200
PROVINCES		
<i>Ouest-France</i> (Rennes)	Mass-appeal	786,200
<i>La Voix du Nord</i> (Lille)	Conservative	356,900
<i>Sud-Ouest</i> (Bordeaux)	Independent	359,300
<i>Le Progres</i> (Lyon)	Mass-appeal	299,000
<i>Le Dauphiné Libéré</i> (Grenoble)	Socialist	281,400
<i>La Nouvelle République du Centre-Ouest</i> (Tours)		259,600
<i>Nice-Matin</i> (Nice)	Radical independent	243,800
<i>La Montagne</i> (Clermont-Ferrand)		232,500
<i>La Dépêche du Midi</i> (Toulouse)	Radical	218,200
<i>L'est Republicain</i> (Heilicourt)		215,000

The Agence France-Presse is the most important French news service. It has autonomous status, but the government is represented on its board of directors. There are some 14,000 periodicals, of which the most widely read is the illustrated Paris-Match, with a weekly circulation (in 1995) of 868,370. Several magazines for women also enjoy wide popularity, including *Elle*, (1995 circulation 360,000). Also for women are magazines publishing novels in serial form. The most popular political weeklies are *L'Express* (left-wing), with a circulation of about 419,000; the satirical *Le Canard Enchaîné* (left-wing), circulation 500,000; *Le Nouvel Observateur* (left-wing), circulation 399,470; and the news-magazine *Le Point* (independent), circulation 280,770. Filmmaking is a major industry, subsidized by the state.

The law provides for free expression including those of speech and press, and these rights are supported by the government.

#### 46 ORGANIZATIONS

The Confédération Générale d'Agriculture, originating in its present form in the resistance movement of World War II, has become the principal voice for farmers. The Société des Agriculteurs de France is considered the organization of landowners. Agricultural cooperatives, both producers' and consumers', are popular. There are also more than 44 large industrial trade organizations. Chambers of commerce function in the larger cities and towns. The International Chamber of Commerce has its headquarters in Paris, the national capital.

The Institute of France (founded in 1795) consists of five academies, including the famous French Academy (Académie Française). There are many scientific, artistic, technical, and scholarly societies and sports groups. The multinational organization of European Academy of Arts, Sciences and Humanities is based in Paris. There are also many associations and organizations dedicated to various sports and leisure time activities. Youth organizations are numerous and range from sports groups, to volunteer and service organizations, religious and political organizations, and international scouting organizations.

The Red Cross and Greenpeace have national chapters.

#### 47 TOURISM, TRAVEL, AND RECREATION

France has countless tourist attractions, ranging from the museums and monuments of Paris to beaches on the Riviera and ski slopes in the Alps. Haute cuisine, hearty regional specialties, and an extraordinary array of fine wines attract gourmets the world over; the area between the Rhone River and the Pyrenees

contains the largest single tract of vineyards in the world. In 1992 Euro Disneyland, 20 miles east of Paris, opened to great fanfare but was plagued by the European recession, a strong French franc, bad weather, and difficulty marketing itself to the French.

The most popular French sport is soccer (commonly called “le foot”). Other favorite sports are skiing, tennis, water sports, and bicycling. Between 1896 and 1984, France won 137 gold, 156 silver, and 158 bronze medals in the Olympic Games. Paris hosted the Summer Olympics in 1900 and 1924; the Winter Olympics took place at Chamonix in 1924, Grenoble in 1968, and Albertville in 1992. Le Mans is the site of a world-class auto race.

Tourists need a valid passport and a visa to enter France; for a longer stay, police registration and a registration card (*carte d'identité*) are necessary.

In 1998, France was the world's top tourist destination with an estimated 70 million tourist arrivals. In 2000, tourist arrivals numbered 75,595,376 and receipts from tourism amounted to \$29.9 billion. That year there were 589,174 rooms and 1,178,348 beds in hotels and similar establishments with a 60% occupancy rate.

In 2001 the US Department of State estimated the daily cost of staying in Paris at \$266. Elsewhere in France, daily expenses ranged from \$134 to \$231.

## 48 FAMOUS FRENCH

Principal figures of early French history include Clovis I (466?–511), the first important monarch of the Merovingian line, who sought to unite the Franks; Charles Martel (“the Hammer,” 689?–741), leader of the Franks against the Saracens in 732; his grandson Charlemagne (742–814), the greatest of the Carolingians, crowned emperor of the West on 25 December 800; and William II, Duke of Normandy (1027–87), later William I of England (“the Conqueror,” r.1066–87). Important roles in theology and church history were played by St. Martin of Tours (b. Pannonia, 316?–97), bishop of Tours and founder of the monastery of Marmoutier, now considered the patron saint of France; the philosopher Pierre Abélard (1079–1142), traditionally regarded as a founder of the University of Paris but equally famous for his tragic romantic involvement with his pupil Héloïse (d.1164); and St. Bernard of Clairvaux (1090?–1153), leader of the Cistercian monastic order, preacher (1146) of the Second Crusade (1147–49), and guiding spirit of the Knights Templars. The first great writer of Arthurian romances was Chrétien de Troyes (fl.1150?).

The exploits of famous 14th-century Frenchmen were recorded by the chronicler Jean Froissart (1333?–1401). Early warrior-heroes of renown were Bertrand du Guesclin (1320–80) and Pierre du Terrail, seigneur de Bayard (1474?–1524). Joan of Arc (Jeanne d'Arc, 1412–31) was the first to have a vision of France as a single nation; she died a martyr and became a saint and a national heroine. Guillaume de Machaut (1300?–1377) was a key literary and musical figure. François Villon (1431–63?) was first in the line of great French poets. Jacques Coeur (1395–1456) was the greatest financier of his time. Masters of the Burgundian school of composers were Guillaume Dufay (1400?–1474), Gilles Binchois (1400?–1467), Jan Ockeghem (1430?–95), and Josquin des Prez (1450?–1521). Jean Fouquet (1415?–80) and Jean Clouet (1485–1541) were among the finest painters of the period. The flag of France was first planted in the New World by Jacques Cartier (1491–1557), who was followed by the founder of New France in Canada, Samuel de Champlain (1567–1635).

The era of Louis XIV (“le Roi Soleil,” or “the Sun King,” 1638–1715) was in many respects the golden age of France. Great soldiers—Henri de La Tour d’Auvergne, vicomte de Turenne (1611–75), François Michel Le Tellier, marquis de Louvois (1639–91), and Louis II de Bourbon, prince de Condé, called the Grand Condé (1621–86)—led French armies to conquests on

many battlefields. Great statesmen, such as the cardinals Armand Jean du Plessis, duc de Richelieu (1585–1642), and Jules Mazarin (1602–61), managed French diplomacy and created the French Academy. Great administrators, such as Maximilien de Bethune, duc de Sully (1560–1641), and Jean-Baptiste Colbert (1619–83), established financial policies. Noted explorers in the New World were Jacques Marquette (1637–75), Robert Cavalier, Sieur de La Salle (1643–87), and Louis Jolliet (1645–1700). Jean-Baptiste Lully (1632–87), Marc-Antoine Charpentier (1634–1704), and François Couperin (1668–1733) were the leading composers. Nicolas Poussin (1594–1665), Claude Lorrain (1600–1682), and Philippe de Champaigne (1602–74) were the outstanding painters. In literature, the great sermons and moralizing writings of Jacques Bénigne Bossuet, bishop of Meaux (1627–1704), and François Fénelon (1651–1715); the dramas of Pierre Corneille (1606–84), Molière (Jean-Baptiste Poquelin, 1622–73), and Jean Racine (1639–99); the poetry of Jean de La Fontaine (1621–95) and Nicolas Boileau-Despréaux (1636–1711); the maxims of François, duc de La Rochefoucauld (1613–80), and Jean de La Bruyère (1645–96); the fairy tales of Charles Perrault (1628–1703); the satirical fantasies of Savinien de Cyrano de Bergerac (1619–55); and the witty letters of Madame de Sévigné (1626–96) made this a great age for France. Two leading French philosophers and mathematicians of the period, René Descartes (1596–1650) and Blaise Pascal (1623–62), left their mark on the whole of European thought. Pierre Gassendi (1592–1655) was a philosopher and physicist; Pierre de Fermat (1601–55) was a noted mathematician. Modern French literature began during the 16th century, with François Rabelais (1490?–1553), Joachim du Bellay (1522–60), Pierre de Ronsard (1525–85), and Michel de Montaigne (1533–92). Ambroise Paré (1510–90) was the first surgeon, and Jacques Cujas (1522–90) the first of the great French jurists. Among other figures in the great controversy between Catholics and Protestants, Claude, duc de Guise (1496–1550), and Queen Catherine de Médicis (Caterina de’Medici, b.Florence, 1519–89) should be mentioned on the Catholic side, and Admiral Gaspard de Coligny (1519–72), a brilliant military leader, on the Protestant side. Two famous kings were Francis I (1494–1547) and Henry IV (Henry of Navarre, 1553–1610); the latter proclaimed the Edict of Nantes in 1598, granting religious freedom to his Protestant subjects. The poetic prophecies of the astrologer Nostradamus (Michel de Notredame, 1503–66) are still widely read today.

## 1700–1900

During the 18th century, France again was in the vanguard in many fields. Étienne François, duc de Choiseul (1719–85), and Anne Robert Jacques Turgot (1727–81) were among the leading statesmen of the monarchy. Charles Louis de Secondat, baron de La Brède et de Montesquieu (1689–1755), and Jean-Jacques Rousseau (b.Switzerland, 1712–78) left their mark on philosophy. Denis Diderot (1713–84) and Jean Le Rond d’Alembert (1717–83) created the Great Encyclopedia (*Encyclopédie ou Dictionnaire Raisonné des Sciences, des Artes et des Métiers*). Baron Paul Henri Thiery d’Holbach (1723–89) was another philosopher. Jeanne Antoinette Poisson Le Normant d’Etoiles, marquise de Pompadour (1721–64), is best known among the women who influenced royal decisions during the reign of Louis XV (1710–74). French explorers carried the flag of France around the world, among them Louis Antoine de Bougainville (1729–1811) and Jean La Pérouse (1741–88). French art was dominated by the painters Antoine Watteau (1684–1721), Jean-Baptiste Chardin (1699–1779), François Boucher (1703–70), and Jean Honoré Fragonard (1732–1806) and by the sculptor Jean Houdon (1741–1828). Jean-Philippe Rameau (1683–1764) was the foremost composer. French science was advanced by Georges Louis Leclerc, Comte de Buffon (1707–88), zoologist and founder of the Paris Museum, and Antoine



Laurent Lavoisier (1743–94), the great chemist. In literature, the towering figure of Voltaire (François Marie Arouet, 1694–1778) and the brilliant dramatist Pierre Beaumarchais (1732–99) stand beside the greatest writer on gastronomy, Anthelme Brillat-Savarin (1755–1826).

The rule of Louis XVI (1754–93) and his queen, Marie Antoinette (1755–93), and the social order they represented, ended with the French Revolution. Outstanding figures of the Revolution included Jean-Paul Marat (1743–93), Honoré Gabriel Riquetti, comte de Mirabeau (1749–91), Maximilien Marie Isidore Robespierre (1758–94), and Georges Jacques Danton (1759–94). Napoleon Bonaparte (1769–1821) rose to prominence as a military leader in the Revolution and subsequently became emperor of France. Marie Joseph Paul Yves Roch Gilbert du Motier, marquis de Lafayette (1757–1834), was a brilliant figure in French as well as in American affairs. This was also the period of the eminent painter Jacques Louis David (1748–1825) and of the famed woman of letters Madame Germaine de Staël (Anne Louise Germaine Necker, baronne de Staël-Holstein, 1766–1817).

During the 19th century, French science, literature, and arts all but dominated the European scene. Among the leading figures were Louis Jacques Mendé Daguerre (1789–1851), inventor of photography, and Claude Bernard (1813–78), the great physiologist. Other pioneers of science included Jean-Baptiste Lamarck (1744–1829) and Georges Cuvier (1769–1832) in zoology and paleontology, Pierre Laplace (1749–1827) in geology, André Marie Ampère (1775–1836), Dominique François Arago (1786–1853), and Jean Bernard Léon Foucault (1819–68) in physics, Joseph Louis Gay-Lussac (1778–1850) in chemistry, Camille Flammarion (1842–1925) in astronomy, and Louis Pasteur (1822–95) in chemistry and bacteriology. Louis Braille (1809–52) invented the method of writing books for the blind that bears his name. Auguste (Isidore Auguste Marie François Xavier) Comte (1798–1857) was an influential philosopher. Literary figures included the poets Alphonse Marie Louis de Lamartine (1790–1869), Alfred de Vigny (1797–1863), Alfred de Musset (1810–57), Charles Baudelaire (1821–67), Stéphane Mallarmé (1842–98), Paul Verlaine (1844–96), and Arthur Rimbaud (1854–91); the fiction writers François René Chateaubriand (1768–1848), Stendhal (Marie Henri Beyle, 1783–1842), Honoré de Balzac (1799–1850), Victor Marie Hugo (1802–85), Alexandre Dumas the elder (1802–70) and his son, Alexandre Dumas the younger (1824–95), Prosper Mérimée (1803–70), George Sand (Amandine Aurore Lucie Dupin, baronne Dudevant, 1804–76), Théophile Gautier (1811–72), Gustave Flaubert (1821–80), the Goncourt brothers (Edmond, 1822–96, and Jules, 1830–70), Jules Verne (1828–1905), Alphonse Daudet (1840–97), Emile Zola (1840–1902), and Guy de Maupassant (1850–93); and the historians and critics François Guizot (1787–1874), Jules Michelet (1798–1874), Charles Augustin Sainte-Beuve (1804–69), Alexis de Tocqueville (1805–59), Ernest Renan (1823–92), and Hippolyte Adolphe Taine (1828–93). Charles Maurice de Talleyrand (1754–1838), Joseph Fouché (1763–1820), Adolphe Thiers (1797–1877), and Léon Gambetta (1838–82) were leading statesmen. Louis Hector Berlioz (1803–69) was the greatest figure in 19th-century French music. Other figures were Charles François Gounod (1818–93), composer of *Faust*, Belgian-born César Auguste Franck (1822–90), and Charles Camille Saint-Saëns (1835–1921). Georges Bizet (1838–75) is renowned for his opera *Carmen*, and Jacques Lévy Offenbach (1819–80) for his immensely popular operettas.

In painting, the 19th century produced Jean August Dominique Ingres (1780–1867), Ferdinand Victor Eugène Delacroix (1789–1863), Jean-Baptiste Camille Corot (1796–1875), Honoré Daumier (1808–79), and Gustave Courbet (1819–77), and the impressionists and postimpressionists Camille Pissarro (1830–1903), Édouard Manet (1832–83), Hilaire

Germain Edgar Degas (1834–1917), Paul Cézanne (1839–1906), Claude Monet (1840–1926), Pierre Auguste Renoir (1841–1919), Paul Gauguin (1848–1903), Georges Seurat (1859–91), and Henri de Toulouse-Lautrec (1864–1901). Auguste Rodin (1840–1917) was the foremost sculptor; Frédéric Auguste Bartholdi (1834–1904) created the Statue of Liberty. The actresses Rachel (Elisa Félix, 1821–58) and Sarah Bernhardt (Rosine Bernard, 1844–1923) dominated French theater.

### The Twentieth Century

In 20th-century political and military affairs, important parts were played by Georges Clemenceau (1841–1929), Ferdinand Foch (1851–1929), Henri Philippe Pétain (1856–1951), Raymond Poincaré (1860–1934), Léon Blum (1872–1950), Jean Monnet (1888–1979), Charles de Gaulle (1890–1970), Pierre Mendès-France (1907–82), François Maurice Marie Mitterrand (1916–96), and Valéry Giscard d'Estaing (b.1926). Winners of the Nobel Peace Prize include Frédéric Passy (1822–1912) in 1901, Benjamin Constant (1852–1924) in 1909, Léon Victor Auguste (1851–1925) in 1920, Aristide Briand (1862–1932) in 1926, Ferdinand Buisson (1841–1932) in 1927, and René Cassin (1887–1976) in 1968. Albert Schweitzer (1875–1965), musician, philosopher, physician, and humanist, a native of Alsace, received the Nobel Peace Prize in 1952. Famous scientists include the mathematician Jules Henri Poincaré (1854–1912); the physicist Antoine Henri Becquerel (1852–1908), a Nobel laureate in physics in 1903; chemist and physicist Pierre Curie (1859–1906); his wife, Polish-born Marie Skłodowska Curie (1867–1934), who shared the 1903 Nobel Prize for physics with her husband and Becquerel and won a Nobel Prize again, for chemistry, in 1911; their daughter Irène Joliot-Curie (1897–1956) and her husband, Frédéric Joliot-Curie (Jean-Frédéric Joliot, 1900–1958), who shared the Nobel Prize for chemistry in 1935; Jean-Baptiste Perrin (1870–1942), Nobel Prize winner for physics in 1926; the physiologist Alexis Carrel (1873–1944); and Louis de Broglie (1892–1987), who won the Nobel Prize for physics in 1929. Other Nobel Prize winners for physics include Charles Édouard Guillaume (1861–1938) in 1920, Alfred Kastler (1902–84) in 1966, and Louis Eugène Néel (1904–2000) in 1970; for chemistry, Henri Moissan (1852–1907) in 1906, Victor Grignard (1871–1935) in 1912, and Paul Sabatier (1854–1941) in 1912. Also, in physiology or medicine: in 1907, Charles Louis Alphonse Laveran (1845–1922); in 1913, Charles Robert Richet (1850–1935); in 1928, Charles Jules Henri Nicolle (1866–1936); in 1965, François Jacob (b.1920), André Lwoff (1902–94), and Jacques Monod (1910–76); and in 1980, Jean-Baptiste Gabriel Dausset (b.1916). The philosopher Henri Bergson (1859–1941) received the 1927 Nobel Prize for literature. Émile Durkheim (1858–1917) was a founder of modern sociology. Pierre Teilhard de Chardin (1881–1955), a Jesuit, was both a prominent paleontologist and an influential theologian. Claude Lévi-Strauss (b.Belgium, 1908) is a noted anthropologist, and Fernand Braudel (1902–85) was an important historian.

Honored writers include Sully-Prudhomme (René François Armand, 1839–1907), winner of the first Nobel Prize for literature in 1901; Frédéric Mistral (1830–1914), Nobel Prize winner in 1904; Edmond Rostand (1868–1918); Anatole France (Jacques Anatole Thibaut, 1844–1924), Nobel Prize winner in 1921; Romain Rolland (1866–1944), Nobel Prize winner in 1915; André Paul Guillaume Gide (1869–1951), a 1947 Nobel laureate; Marcel Proust (1871–1922); Paul Valéry (1871–1945); Colette (Sidonie Gabrielle Claudine Colette, 1873–1954); Roger Martin du Gard (1881–1958), Nobel Prize winner in 1937; Jean Giraudoux (1882–1944); François Mauriac (1885–1970), 1952 Nobel Prize winner; Jean Cocteau (1889–1963); Louis Aragon (1897–1982); André Malraux (1901–76); Jean-Paul Sartre (1905–80), who received the 1964 Nobel Prize; Simone Lucie Ernestine Marie Bertrand de Beauvoir (1908–86); Simone Weil

(1909–43); Jean Genet (1910–86); Jean Anouilh (1910–87); Albert Camus (1913–60), Nobel Prize winner in 1957; Claude Simon (b.1913), a 1985 Nobel laureate; Marguerite Duras (1914–96); and Roland Barthes (1915–80). Romanian-born Eugene Ionesco (1912–94) and Irish-born Samuel Beckett (1906–89) spent their working lives in France. Significant composers include Gabriel Urbain Fauré (1845–1924), Claude Achille Debussy (1862–1918), Erik Satie (1866–1925), Albert Roussel (1869–1937), Maurice Ravel (1875–1937), Francis Poulenc (1899–1963), Olivier Messiaen (1908–92), and composer-conductor Pierre Boulez (b.1925). The sculptor Aristide Maillol (1861–1944) and the painters Henri Matisse (1869–1954), Georges Rouault (1871–1958), Georges Braque (1882–1963), Spanish-born Pablo Picasso (1881–1974), Russian-born Marc Chagall (1887–1985), and Jean Dubuffet (1901–85) are world famous.

Of international renown are actor-singers Maurice Chevalier (1888–1972), Yves Montand (Ivo Livi, 1921–91), and Charles Aznavour (b.1924); actor-director Jacques Tati (Jacques Tatischeff, 1907–82); actors Charles Boyer (1899–1978), Jean-Louis Xavier Trintignant (b.1930), and Jean-Paul Belmondo (b.1933); actresses Simone Signoret (Simone Kaminker, 1921–85) and Jeanne Moreau (b.1928); singer Edith Piaf (1915–63); master of mime Marcel Marceau (b.1923); and directors Georges Méliès (1861–1938), Abel Gance (1889–1981), Jean Renoir (1894–1979), Robert Bresson (1901–99), René Clément (1913–96), Eric Rohmer (Jean-Marie Maurice Scherer, b.1920), Alain Resnais (b.1922), Jean-Luc Godard (b.1930), Louis Malle (1932–95), and François Truffaut (1932–84). One of the most recognizable Frenchmen in the world was oceanographer Jacques-Yves Cousteau (1910–97), who popularized undersea exploration with popular documentary films and books.

#### 49 DEPENDENCIES

French overseas departments include French Guiana, Guadeloupe, Martinique, and Saint-Pierre and Miquelon (described in the *Americas* volume under French American Dependencies) and Réunion (in the *Africa* volume under French African Dependencies). French overseas territories and collectivities include French Polynesia, French Southern and Antarctic Territories, New Caledonia, and Wallis and Futuna (see French Asian Dependencies in the *Asia* volume), and Mayotte (in the *Africa* volume). The inhabitants of French overseas departments and territories are French citizens, enjoy universal suffrage, and send elected representatives to the French Parliament.

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# GEORGIA

Republic of Georgia  
*Sakartveld Respublika*

**CAPITAL:** T'bilisi (Tbilisi)

**FLAG:** Maroon field with a small rectangle in the upper hoist side corner. The rectangle is divided horizontally with black on top, white below.

**ANTHEM:** *National Anthem of the Republic of Georgia.*

**MONETARY UNIT:** The lari (L) was issued in 1995 to replace government coupons that were introduced in 1993. 1L = \$0.4629 (or \$1 = 1L.16) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** New Year's Day, 1–2 January; Christmas, 7 January; Independence Day, 26 May; St. George's Day, 22 November.

**TIME:** 3 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Georgia is located in southeastern Europe, bordering the Black Sea, between Turkey and Russia. Comparatively, the area occupied by Georgia is slightly smaller than the state of South Carolina, with a total area of 69,700 sq km (26,911 sq mi). Georgia shares boundaries with Russia on the N and E, Azerbaijan on the E and S, Armenia and Turkey on the S, and the Black Sea on the W. Georgia's land boundary totals 1,461 km (906 mi). Its coastline is 310 km (192 mi). Its capital city, T'bilisi, is located in the southeastern part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Georgia is mainly mountainous, with the great Caucasus Mountains in the north and lesser Caucasus Mountains in the south. The Kolkhida Lowland opens to the Black Sea in the west and the Kura River basin lies in the east. Good soils occur in the river valley flood plains and in the foothills of the Kolkhida Lowland.

## <sup>3</sup>CLIMATE

Georgia's climate along the Black Sea coast is Mediterranean. Farther inland the climate is continental, with warm summers and cold winters. July's mean temperature is 23°C (73.8°F). The mean temperature in January is -3°C (27.3°F). The annual rainfall in Georgia is 51 cm (20 in).

## <sup>4</sup>FLORA AND FAUNA

The country's land is composed of gently rolling plains. The Caucasus Mountains in Georgia begin a series of high mountains in Central Asia. The subtropical zone of the Black Sea coast of the Caucasus Mountains has a distinctive vegetation: woods of black alder, oak, elm, and beech with a profusion of lianas and an admixture of evergreens. Mountain goats, Caucasian goats, Caucasian antelope, European wild boar, porcupine, and the leopard inhabit the Caucasus, and reptiles and amphibious creatures abound.

## <sup>5</sup>ENVIRONMENT

Georgia suffers from pollution of its air, water, and soil. Air pollution is especially heavy in Rust'avi. In 1996, Georgia's industrial carbon dioxide emissions totaled 2.9 million metric tons. The Mtkvari River and the Black Sea are both heavily polluted. Pesticides from agricultural areas have significantly contaminated the soil. In 2001, 2.8% of Georgia's total land area was protected. As of 2001, 10 mammal species, 5 bird species, and 7 reptile species were threatened. Species on the endangered list include Atlantic sturgeon, slender-billed curlew, Mediterranean monk seals, Darevsky's viper, and the Armenian birch mouse.

## <sup>6</sup>POPULATION

The population of Georgia in 2003 was estimated by the United Nations at 5,126,000, which placed it as number 110 in population among the 193 nations of the world. In that year approximately 14% of the population was over 65 years of age, with another 20% of the population under 15 years of age. There were 91 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.92%, with the projected population for the year 2015 at 4,724,000. The population density in 2002 was 63 per sq km (164 per sq mi). The majority of the population lives near the Black Sea or in the river valleys.

It was estimated by the Population Reference Bureau that 61% of the population lived in urban areas in 2001. The capital city, T'bilisi, had a population of 1,309,000 in that year. Kútáisi had an estimated population of 236,000 and Rustavi, 160,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.8%.

## <sup>7</sup>MIGRATION

Net emigration to other Soviet republics was only 5,600 during 1979–88. The number rose to 28,800 in 1989 and 39,900 in 1990. With independence in 1991 came three secessionist movements in three autonomous areas, conflicts in two of them. The conflict in South Ossetia in 1991, followed by the conflict in

Abkhazia in 1992 and 1993, resulted in the mass displacement of ethnic Georgians, Ossetians, and Abkhaz, as well as other ethnic minorities. As many as 200,000 Georgians may have fled the fighting in Abkhazia in 1993. By December 1996, Georgia had 280,000 internally displaced persons. In February of 1997, a voluntary repatriation plan was agreed upon for persons to return to South Ossetia. Hostilities resumed in Gali in May 1998, displacing some 40,000 residents. In 2000, the net migration rate was -5.7 migrants per 1,000 population, a significant change from -9.2 per 1,000 in 1990. In that year there were 219,000 in that year. The government views the migration levels as too high.

## **8**ETHNIC GROUPS

The population was 70.1% Georgian at last estimate. The leading minorities were Armenians with 8.1%; Russians with 6.3%; Azeris with 5.7%; Ossetians with 3%; Abkhaz with 1.8%; and various other groups making up the remaining 5%.

## **9**LANGUAGES

Georgian is a South Caucasian language called Kartveli by its speakers. There is no article and a single declension with six cases. The alphabet is a phonetic one with 33 symbols. The literature dates from the 5th century AD. The official language, Georgian is spoken by 71% of the population. In addition, Russian is spoken by 9%, Armenian by 7%, Azeri by 6%, and various other languages are spoken by the remaining 7%. Abkhaz is the official language in Abkhazia.

## **10**RELIGIONS

Georgia is primarily an Orthodox Christian country. Muslim populations are located in South Ossetia, Abkhazia, and Ajaria. In the 4th century AD Christianity briefly enjoyed the status of official religion, but successive conquests by Mongols, Turks, and Persians left Georgia with a complex and unsettled ethnic and religious heritage.

Statistics available after the declaration of Georgian independence in 1991 reveal that the majority of the population is Christian. According to the most recent estimates (2002), about 70% of the population is Christian Orthodox, primarily Georgian Orthodox and Russian Orthodox. There are also significant Muslim populations in various ethnic groups (5%), as well as an Armenian Apostolic community. Roman Catholicism and Judaism are also represented in the country. A number of German communities are Lutheran and there is a small number of native Kurdish Yezidis. Other Christian denominations, which are very small, include Baptists, Seventh-Day Adventists, Pentecostals, Jehovah's Witnesses, The New Apostolic Church, and Assemblies of God. There are also small groups of Baha'is and Hare Krishnas.

## **11**TRANSPORTATION

Railroads in Georgia consist of 1,583 km (606 mi) of track (not including industrial lines). Railways serve primarily as connections to the Black Sea for inland cities like T'bilisi, Chiat'ura, Jvari, and Tkvarcheli. Highways in 2002 totaled an estimated 33,900 km (21,066 mi), of which 29,500 km (18,331 mi) were paved. The maritime fleet of 64 ships (of 1,000 GRT or over) had a capacity of 210,629 GRT (288,565 DWT) in 2002. Batumi and Poti are the principal Black Sea ports. Georgia has 31 airports, 16 of which have paved runways. Its only international airport is Tbilisi which is capable of handling 1,000–1,200 passengers per hour. In 2001 there were 782,000 aircraft departures, and 110,800 passengers were carried on scheduled domestic and international airline flights.

## **12**HISTORY

Georgia has existed as a state on a sporadic basis since classical times. The first Georgian state can be traced to the 4th century

BC. Throughout its history Georgia has been conquered by the Romans, Iranians, the Arabs, the Turks, the Mongols and the Hordes of Tamerlane. Georgia did enjoy independence for short periods of time from the 6th to the 12th centuries AD. The Mongols invaded and conquered Georgia by 1236. Later the Ottoman and Persian empires competed for control of the region. Western Georgia became a Russian protectorate in 1783. All of Georgia was absorbed directly in the Russian empire during the 19th century.

During the tumult of the Russian revolution, Georgia declared its independence on 26 May 1918. Twenty-two countries recognized this new state, including Soviet Russia. Nonetheless, the Soviet Red Army invaded in February 1921 and Georgia's brief independence came to an end.

Many Georgians fell victim in the late 1920s and 1930s to Soviet collectivization, crash industrialization, and Stalin's purges (despite his Georgian-Ossetian ethnic origins). Nationalist riots were brutally suppressed in 1924 and 1956, and nationalist mass demonstrations occurred in 1978 and 1988. In April 1989, many Georgian demonstrators were murdered, some with shovels, by Soviet military and police forces during a peaceful protest against perceived Russian support for Abkhaz autonomy demands.

Georgia's first multiparty legislative elections, held in October 1990, resulted in a victory for the party coalition Round Table-Free Georgia, headed by academic and dissident Zviad Gamsakhurdia. He was subsequently selected by the deputies to serve as chairman of the legislature. Following a March 1991 referendum, a formal declaration of independence was unanimously approved by the legislature on April 9. Gamsakhurdia was popularly elected as president in May, but still faced opposition from, among others, parties belonging to the National Congress, a national liberation body formed in October 1990. The Mkhedrioni paramilitary group, led by Jaba Ioseliani, was allied with the National Congress. During 1991, Gamsakhurdia's erratic attempts to remake Georgian society and politics caused the head of the National Guard, Tengiz Kitovani, to also join the opposition. The National Guard and Mkhedrioni spearheaded a general assault to overthrow Gamsakhurdia in December 1991, forcing him to flee the country in early January 1992.

A military council formed by Ioseliani, Kitovani, and others assumed power, suspending the Soviet-era constitution (and replacing it with one from 1921), dissolving the legislature, and declaring emergency rule. Former Georgian leader Eduard Shevardnadze (the Communist Party boss of Georgia from 1972 to 1985) was invited in early March 1992 to head a provisional government. He formed a civilian State Council to rule until elections could be held, and was elected head of its four-member presidium. During legislative elections in October 1992, he was elected speaker in an uncontested race. The new legislature granted Shevardnadze wide-ranging powers as head of state pending completion of a new constitution. In May 1993, Shevardnadze moved to consolidate his power by securing the resignations of Kitovani and Ioseliani from government posts. Gamsakhurdia returned from exile in September 1993 to the western Georgian region of Mingrelia and led a revolt to unseat Shevardnadze. Pro-Shevardnadze forces, assisted by the Russian military, were able to put down the revolt by early November 1993. Gamsakhurdia's death was reported in early January 1994. In further moves by Shevardnadze to consolidate power, Kitovani was arrested in January 1995 for planning an illegal paramilitary attack on Abkhazia, and he neutralized Ioseliani's Mkhedrioni.

Several of Georgia's ethnic minorities stepped up their dissident and separatist actions in the late 1980s and early 1990s. South Ossetians in 1989 called for their territory to be joined with North Ossetia in Russia, or for independence. Repressive efforts by former Georgian president Gamsakhurdia triggered conflict in 1990, reportedly leading to about 1,500



LOCATION: 42°0' N; 44°0' E. BOUNDARY LENGTHS: Total boundary lengths, 1,461 kilometers (908 miles): Armenia, 164 kilometers (102 miles); Azerbaijan, 322 kilometers (200 miles); Russia, 723 kilometers (450 miles); Turkey, 252 kilometers (157 miles); total coastline, 310 kilometers (193 miles).

deaths and 50,000 displaced persons, mostly ethnic Georgians. In June 1992, Russian president Boris Yeltsin brokered a cease-fire, and a predominantly Russian military "peacekeeping" force numbering about 500 was stationed in South Ossetia. A coordinating commission on settlement of the Georgian-Ossetian conflict, composed of OSCE, Russian, Georgian, and North and South Ossetian emissaries, meets regularly, but rapprochement remains elusive. The November 1999 OSCE Summit Declaration urged Georgia and South Ossetia to agree on resettling displaced persons and called for international aid for the region. In his state of the nation speech on 9 February 2000, Shevardnadze praised the Russian peacekeepers and successes in reconciliation between ethnic Ossetians and Georgians.

Georgia's southern Ajaria region is to a large extent self-governing, under conditions resembling a police state. Ajaria's authorities claim that regional laws take precedence over national laws, and Shevardnadze has had to undertake extensive negotiations to establish national law in the region.

The Abkhaz conflict has resulted in about 10,000 deaths and over 200,000 refugees and displaced persons, mostly ethnic Georgians. In July 1992, the Abkhaz Supreme Soviet declared its effective independence from Georgia. This prompted Georgian

national guardsmen to attack Abkhazia. In October 1992, the UN Security Council (UNSC) approved the first UN observer mission to a NIS state, termed UNOMIG, to help reach a settlement. In September 1993, Russian and North Caucasian "volunteer" troops that reportedly made up the bulk of Abkhaz separatist forces broke a cease-fire and quickly routed Georgian forces. Abkhaz-Georgian talks leading to a cease-fire were held under UN auspices, with the participation of Russia and the OSCE. In April 1994, the two sides signed framework accords on a political settlement and on the return of refugees and displaced persons. A Quadripartite Commission was set up to discuss repatriation, composed of Abkhaz and Georgian representatives and emissaries from Russia and the UN High Commissioner for Refugees. The next month, a cease-fire was signed by Georgia and Abkhazia, providing for Russian troops (acting as Commonwealth of Independent States or CIS peacekeepers) to be deployed in a security zone along the Inguri River, which divides Abkhazia from the rest of Georgia. The Russian Defense Ministry in 1999 reported the deployment of about 1,700 peacekeepers.

The US Special Negotiator for Regional Conflicts works with the UN Secretary General, his Special Representative, and other Friends of Georgia (France, Germany, Russia, the United

Kingdom, and the United States) to facilitate a peace settlement. Current strength of UNOMIG military observers (as of December 2002) was 117, with 91 international civilian personnel and 175 local civilian staff supporting them. According to the UNSC resolution, UNOMIG forces are to “monitor and verify” the cease-fire, “observe the operation of the CIS peacekeeping force,” patrol the security zone, investigate and attempt to resolve violations of the cease-fire, and “contribute to conditions conducive to the safe and orderly return of refugees and displaced persons.” The UNSC agreed that cooperation with the CIS (Russian) forces was a reflection of trust placed in Russia. Under various agreements, the Russian peacekeepers are to respond to UNOMIG reports of cease-fire violations, carry out de-mining, and provide protection for UNOMIG’s unarmed observers. The UN Secretary General and the UNSC have officially viewed the cooperation of the Russian peacekeepers with UNOMIG as mainly unobjectionable. Increasing attacks on UNOMIG forces have led to limited patrolling and added security measures.

A major point of contention between the two sides is Georgia’s demand that displaced persons be allowed to return to Abkhazia, after which an agreement on broad autonomy for Abkhazia may be negotiated. The Abkhazians have insisted upon recognition of their “equal status” with Georgia as a precondition to large-scale repatriation. The CIS in 1997–1998 endorsed Shevardnadze’s call for creating a special Abkhaz-Georgian administration, with UN and OSCE participation, to first seek peace in Abkhazia’s Gali area, and to expand the security zone and give Russian peacekeepers police powers. Abkhazia refused to countenance changing the peacekeeping mandate. Although Shevardnadze has criticized the failures of the Russian peacekeepers, in February 2000 he stated that he saw no alternative to their presence, since no other international forces have come forward.

After a hiatus of two years, UN-sponsored peace talks were reconvened in mid-1997. In late 1997, the sides agreed to set up a Coordinating Council to discuss cease-fire maintenance and refugee, economic, and humanitarian issues. Coordinating Council talks and those of the Quadripartite Commission have been supplemented by direct discussions between an envoy from Vladislav Ardzinba, whom Abkhazian separatists have elected as their president, and the Georgian State Secretary. Abkhaz forces in mid-1998 reportedly expelled 30,000–40,000 ethnic Georgians who resided in the Gali area. In June 1999 in Istanbul, the two sides agreed to resume contacts they had cut off the year before, and a working group agreed to implement the separation of warring forces. The November 1999 OSCE Summit Declaration urged Georgia and Abkhazia to end the deadlock on talks, proposed a UN-OSCE effort to work out a constitutional division of powers between Georgia and Abkhazia, condemned “ethnic cleansing” of the Georgian population from the Gali region of Abkhazia, and proposed a UN-OSCE fact-finding mission to Gali to assess the state of ethnic cleansing in the region and facilitate the safe return of displaced persons. The OSCE also criticized the holding of a separatist presidential election and referendum on independence in Abkhazia as not contributing to a peace settlement. Georgian State Minister Vazha Lortkipanidze visited Sukhumi in early February 2000, and the two sides agreed to exchange prisoners and stabilize the opposing forces in the Gali and Zugdidi areas at the border.

In November 1995, Eduard Shevardnadze was elected to the re-created post of president, receiving 74.32% of the vote in a six-person race, and a new parliament was selected. International observers termed the elections generally free and fair nationwide except in the region of Ajaria.

Seven candidates were registered to run in Georgia’s 9 April 2000, presidential election. The major challengers to Shevardnadze were Jumbar Patiashvili, former first secretary of the Georgian Communist Party (who ran in the 1995 presidential race), and Aslan Abashidze, Chairman of the Ajarian Supreme

Council. Both challengers were leaders of the Revival Bloc that contested the 1999 legislative races. Abashidze did not actively campaign and withdrew from the race one day before the vote, alleging an unfair contest. Other speculation was that he withdrew in return for concessions from Shevardnadze on local power and finances. Voting did not take place in Abkhazia or South Ossetia. The Georgian Central Election Commission (CEC) reported that Shevardnadze received 80% of 1.87 million votes and Patiashvili received 17% (less than he received in 1995). The 150 OSCE monitors reported on April 10 that the election did not meet OSCE standards, though “fundamental freedoms were generally respected during the election campaign and candidates were able to express their views.” They stressed that the government aided the incumbent, state media were biased, vote counting and tabulation procedures lacked uniformity and, at times, transparency, ballot box stuffing had taken place, and some voting protocols reportedly had been tampered with.

In March 2001, officials from Georgia and Abkhazia signed an accord stating they would not use force against one another. However, meetings between the two sides were cancelled later in the year due to continuing hostilities and hostage incidents. On 8 October 2001, a UNOMIG helicopter was shot down over Abkhazia, and all nine people on board were killed. As of February 2003, those responsible for the downing had not been identified. In August 2002, Georgia and Abkhazia failed to come to an agreement on the withdrawal of Abkhaz fighters from the Kodori Gorge, the only enclave controlled by Georgia in Abkhazia. Georgia was concerned that Russians were supporting the Abkhaz fighters. In January 2003, UN Secretary-General Kofi Annan declared little progress had been made on talks to determine the future status of Abkhazia, and that the mandate for UNOMIG should be extended another six months, until 31 July 2003. Upon coming into his second term in office, Shevardnadze claimed he would fight corruption and low living standards, undertake market reforms, and protect the territorial integrity of Georgia. Georgia desired NATO membership, and on 22 November 2002, Shevardnadze formally requested that Georgia be invited into the alliance. Russia did not immediately react to the announcement. In 1999, the OSCE demanded that Russia remove all of its troops from Georgia. In 2001, Russia vacated the Gudauta and Vaziani bases and the Marneuli military airfield, but did not agree to a time frame for a departure from the Akhalkalaki and Batumi military bases. One sore spot in Georgian-Russian relations remains the situation in Chechnya. Russian officials have accused Georgia of aiding Chechen rebels, especially in the Pankisi Gorge region of Georgia. Russia regards the armed conflict in Chechnya as a part of the international campaign against terrorism, and has demanded Georgia cooperate in combating Chechens in the region. In September 2002, Russia warned Georgia that it would take military action if Georgia failed to deal with Chechen rebels in the Pankisi Gorge. The United States, since 11 September 2001, has claimed that members of the al-Qaeda organization are operating in the Pankisi Gorge, and has enlisted Georgia’s support in undertaking anti-terror operations there. In April and May 2002, US Special Forces arrived in Georgia to train and equip troops for counterterrorist operations. On 8 February 2003, Russia claimed that terrorists recently arrested in Great Britain and France had trained in the Pankisi Gorge, and used laboratories built there to produce the poisonous toxin ricin that can be used as an agent in chemical warfare.

In September 2002, construction began on a multi-billion dollar pipeline to carry Caspian oil from Azerbaijan to Turkey via Georgia.

### 13 GOVERNMENT

Until 1995, Georgia was governed according to a constitution dating back to 1921. Shevardnadze, though, pushed for the

adoption of a new constitution giving the president added powers. A new constitution was approved by the legislature in August 1995. It reestablishes a strong presidency, though affirming a balance of executive and legislative powers more equitable than those in most other new constitutions approved by former Soviet republics. The president is elected for a 5-year term. The constitution establishes a unicameral, 235-member legislature elected by single-mandate constituencies (85 seats) and party lists (150 seats). Legislators serve 4-year terms. Government ministers are responsible to the president, who is assisted by a state minister. Shevardnadze in December 1999 decreed enhanced powers for the state minister "equal to those of a prime minister." The speaker's only constitutional powers are to sign bills and serve as acting president in case the president is indisposed or dies. The legislature agreed that federal provisions would be added to the constitution after Georgia's territorial integrity has been assured. The breakaway regions of South Ossetia and Abkhazia are currently not under the control of the central government, and Ajaria, under the autarchic leadership of Aslan Abashidze, is at least partly self-governing.

Voting for the new legislature took place on 5 November 1995, simultaneous with the presidential race. Only three of the 54 parties running received at least 5% of the party list vote required to win seats, though other parties won representation through constituency races; they have formed eight legislative factions. The elections were judged "consistent with democratic norms" by international observers.

Legislative elections were held most recently on 31 October and 14 November 1999. Voting was by party lists (150 seats) and single-member constituencies (73 seats; twelve sitting members representing separatist Abkhaz districts were allowed to retain their seats). Thirty-two parties and blocs were registered. Three parties received at least 7% of the vote needed to gain party list seats (the new minimum was approved in July 1999). Runoff races were held in November in about two dozen constituencies where no one candidate had received at least one-third of the vote. When the legislature convened on 20 November 1999, the Citizens' Union Party held 130 seats, the Revival Party 58 seats, Industry 15 seats, the Labor Party two seats, and independents 16 seats. Citizens' Union claimed the speakership and two of four deputy speakerships. Two other deputy speakers representing Abkhaz and Ajarian interests marked a federal element. The OSCE reported that the election appeared mostly fair, but a lack of transparency in the electoral law and irregularities in runoffs marred full compliance with OSCE standards. The next general elections are due to be held in 2003.

## 14 POLITICAL PARTIES

Major political parties that won representation in the legislature elected in 1999, based on their share of the party list voting, include Shevardnadze's Georgian Citizens' Union (gaining 891,000 of 2.1 million party list votes cast), Ajarian leader Abashidze's pro-government Revival Union (537,000 votes), and Industry Will Save Georgia (151,000 votes). The Georgian Labor Party just failed to gain enough votes to win party list seats (141,000 votes). Other parties that gained more than one percent of the party list vote include the opposition National Democratic Party (NDP; it won the second largest number of such seats in 1995), the People's Party, and the United Communist Party. Most of the minor political parties and groups characterize themselves as opposed to the government.

## 15 LOCAL GOVERNMENT

Georgia's administrative subdivisions include the Abkhazian and Ajarian Autonomous Republics. The Georgian Supreme Soviet stripped South Ossetia of its autonomous status in late 1990, following its demands to secede and become a part of Russia. Abkhazia and South Ossetia consider themselves self-ruling, and

Ajaria has substantial effective autonomy. There are 53 districts (*rayons*) and nine cities, whose governors or mayors are appointed by the president. Local assembly (*sakrebulo*) elections were held for the first time under the new constitution in November 1998. Thirteen parties participated in the voting for more than 150,000 candidates for 10,000 municipal and district (*rayon*) assemblies or councils. In small towns and villages of fewer than 2,000 voters, 654 majoritarian elections were held, while elsewhere 377 proportional elections by party lists took place. The Citizen's Union Party won the largest number of seats, followed by the Revival bloc, the National Democratic Party, and the Labor Party, though twelve or the thirteen parties won some seats. Inadequate funding and the absence of legislation limited the functions of the new locally elected governments. Opposition parties accused the government and the ruling Citizens' Union Party of retaining the effective power to appoint the mayors of the largest cities and the regional leaders. There remains considerable contention between the central government and the Autonomous Ajarian Republic over the scope of local powers.

Local elections were held on 2 June 2002, and 4774 *sakrebulo* seats in regional Georgia were decided, along with 49 seats in Tbilisi. Independents won 2749 of the regional seats, with the New Right Party taking 544 seats; Industry Will Save Georgia taking 478 seats; and the Revival Party/21st Century Bloc taking 195 seats. The Citizens' Union of Georgia won only 69 seats in a major defeat, faring poorly in both Tbilisi and the regions. This was attributed to a split between the two main factions of the party prior to the elections, both of which strove for the right to campaign as the CUG. The conservative faction won the right to campaign as the CUG in the week prior to the elections, and the reformist faction campaigned as the Christian Conservative Party.

## 16 JUDICIAL SYSTEM

Before 1995, Georgia's legal system retained traces of the pre-Soviet era, the Soviet period, the Gamsakhurdia presidency, and the State Council period. Courts included district courts, a T'bilisi city court, a supreme court in each of the two autonomous republics, and at the highest level the Supreme Court of the Republic.

The 1995 constitution provides for an independent judiciary. However, the judiciary is subject to some executive pressure and pressure from extensive family and clan networks. The Law on Common Courts, passed in 1997, establishes a three-tier court system. District courts hear petty criminal and civil cases. Regional courts of appeal have original and appellate jurisdiction. They try major criminal and civil cases, review cases, and can remand cases to the lower court for retrial. The Supreme Court was envisioned as the highest appellate court, but it also hears some capital cases and appeals from the Central Electoral Commission.

A constitutional court was set up in September 1996. It arbitrates constitutional disputes between the branches of government and rules on individual claims of human rights abuses. The court has demonstrated judicial independence in recent years.

Administration of the court system was transferred from the Justice Ministry to a Council of Justice in 1997, to increase the independence of the courts from budgetary and other influence. The council consists of four members from each of the three branches of government.

The constitution provides for the rights to presumption of innocence, to have a public trial, to legal counsel, and to refuse to make a statement in the absence of counsel. A criminal procedures code was approved in November 1997, and a new criminal code was passed in June 1999. The criminal procedures code aimed at reducing the dominant power of prosecutors over arrests and investigations. Under the new procedures, judges issue warrants for arrest and detention orders, and detentions must

follow correct legal procedures, including informing detainees of their rights, allowing visits by family members and lawyers, and treating detainees without brutality. In mid-1999, however, some of the liberal strictures on defendants' rights were reversed at the insistence of the prosecutors, who continue to have a major influence over the courts.

Under the Law on Common Courts, Georgia has launched a system of testing judges on basic legal principles; many of those who have taken the test have failed. Georgia's accession to the Council of Europe in April 1999 led to new legislation taking jurisdiction over the prison system away from the Interior (police) Ministry and giving it to the Ministry of Justice.

According to the US State Department's Country Reports on Human Rights Practices for 2001, the Georgian government's human rights record remained poor and worsened in some areas. Police and prosecutorial abuses such as beatings of prisoners, forced confessions, denial of fair and expeditious trials, denial of timely access to counsel, and harsh prison conditions continued. The judiciary continues to suffer from corruption, ill-training, and political manipulation, particularly at the local level. Freedom of the press is generally respected, although journalists have been intimidated and subject to violence. Freedom of assembly was restricted as many peaceful gatherings were dispersed.

## 17 ARMED FORCES

Georgia had a total of 17,500 active personnel in its armed forces in 2002. Reserves numbered up to 250,000. The army of 8,620 included the 1,578-member National Guard. Equipment included 90 main battle tanks. The navy of 1,830 operated 11 patrol craft. There was an air force of 1,250 flying seven combat aircraft and three armed helicopters. Government troops faced opposition by some 5,000 Abkhazian and 2,000 South Ossetian rebels. Paramilitary troops numbered 11,700 including Ministry of Interior troops and border guards. Russia deployed 4,000 troops in the country, and there were 1,500 peacekeeping forces and 100 UN observers from 22 countries. Defense spending was \$23 million in 2000 or 0.6% of GDP.

## 18 INTERNATIONAL COOPERATION

Georgia was admitted to the UN on 21 July 1992. The country is a member of the FAO, IAEA, ICAO, IFAD, ILO, OSCE, IMF, UNCTAD, UNESCO, UNIDO, WHO, WIPO, and the World Bank, and is applying for membership in other international organizations. Georgia joined the CIS in 1993, and became a member of the WTO in 2000.

## 19 ECONOMY

Over a decade after its emergence from the Soviet Union as an independent state, Georgia's economy has not fully recovered from the hyperinflation and economic collapse that by 1994 had reduced its GDP to 20% of its 1990 levels. In 2002 its GDP levels were still only at 40% of what they were in the 1980s. Continued civil strife and unresolved separatist struggles with Abkhazia and South Ossetia have combined with pervasive corruption, tax evasion and a "shadow economy" larger than the legitimate one to stifle the country's economic progress. Shortfalls in revenues have caused the government to turn to external as well as domestic financing to cover chronic budget deficits. Foreign borrowing has in turn led to balance of payments problems and resort to IMF facilities. Georgia has entered into three programs with the IMF since independence. A short standby arrangement, June 1995 to February 1996, was followed on expiration by a multi-year program under the Extended Structural Adjustment Facility (ESAF), which was in effect to 13 August 1999 when the IMF withdrew due to the failure of Georgia to meet budgetary targets. In January 2001, a revised program with more realistic targets was approved under the Poverty Reduction and

Growth Facility (PRGF). In March 2001, having an IMF-supervised program underway, Georgia was able to reach an agreement with the Paris Club for rescheduling some of its sovereign debt owed to Paris Club members. From May to October 2001, the IMF again suspended disbursements to Georgia because of its failure to meet the program's conditionals. The PRGF program was due to expire in January 2004.

Georgia's mild climate makes it an important agricultural producer, raising a growing range of subtropical crops (including tea, tobacco, citrus fruits, and flowers) in the coastal region and exporting them to the northern republics in return for manufactured goods. Georgia supplied almost all of the former Soviet Union's citrus fruits and tea, and much of its grape crop. In 1996, the government embarked on a program for the privatization of land holdings. The country also has deposits of manganese, coal, iron ore, and lead, plus a skilled, educated work force. There are several oil refineries operating at the Black Sea port of Batumi. Since low points in 1994 and 1995, there has been sustained growth, although not in all sectors, and inflation has been brought substantially under control. Inflation fell from 163% (consumer prices) in 1995 to 39% in 1996 and 7% in 1997. The growth in GDP reached double digits, 11.2% (1996) and 10.6% (1997), stimulated in part by work on the Baku-Supsa pipeline (opened in April 1999). Since 1998, however, GDP growth slowed to about 3% a year due a combination of the effect of economic crises in Russia and Turkey (which together supply 40% of Georgia's imports and buy over 40% of its exports), an influx of refugees since 1999 from neighboring war-torn Chechnya, severe droughts affecting Georgia's agricultural output in 1998 and 2000, and, from 2001, the global economic slowdown. In 1998, overall GDP growth slowed to 3%, as agricultural production dropped 10% and industrial production dropped 2%. Growth remained at only 3% in 1999. GDP growth was even lower (2%) in 2000, despite 11% growth in industrial production, due to a recurrence of drought which caused agricultural production to fall 15% in one year. In 2001, agriculture recovered somewhat, growing 6%, but industrial production fell back 5%, reflecting in part an 11% decrease in exports to countries outside the CIS. Exports to CIS countries, by contrast, rose 23% in 2000 and 9% in 2001. Georgia official statistics report that the GDP grew overall by 4.5% in 2001, while the US CIA estimated growth at 8.4%. Inflation, which spurted to 19% in 1999, fell to moderate levels of between 4% and 5% in 2000 and 2001.

In 2002, the economy was hampered by the necessity of importing over 90% of the petroleum products consumed due to the shutting down of its only two remaining refineries. The larger 106,000-barrels-per-day refinery at Batumi was closed for modernization and expansion under an agreement with Japan's Mitsui Corp. A small 4,000 barrels-per-day refinery, built in 1998 and idle for much of 2001, was closed permanently in 2002 by its operation company, CanArgo, in favor of a plan to replace it with a larger 30,100-barrels-per-day facility. Georgia's future economic prospects were thought to have improved greatly in December 2002 however, with the announcement of an agreement on the Georgia portion of the Baku-Tbilisi-Ceyhan (BTC) pipeline, with work scheduled to begin in March 2003. In addition to the BTC project, which is to pipe oil from the Caspian Sea to the Turkish port of Ceyhan on the Mediterranean to supply Western European markets, Georgia and Turkey concluded another agreement to build a railway from Tbilisi to Kars, Turkey. The railway would transport oil to Turkish refineries. Plans also exist to develop Georgia into a transit center for natural gas.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Georgia's gross domestic product (GDP) was estimated at \$15



billion. The per capita GDP was estimated at \$3,100. The annual growth rate of GDP was estimated at 4%. The average inflation rate in 2002 was 5.2%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 20% of GDP, industry 25%, and services 55%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$95 million or about \$18 per capita and accounted for approximately 3.1% of GDP. Foreign aid receipts amounted to about \$55 per capita and accounted for approximately 9% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$378. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption declined at an annual rate of 19%. Approximately 33% of household consumption was spent on food, 13% on fuel, 2% on health care, and 4% on education. The richest 10% of the population accounted for approximately 27.9% of household consumption and the poorest 10% approximately 2.3%. It was estimated that in 2001 about 54% of the population had incomes below the poverty line.

## 21 LABOR

The labor force was estimated at 2.1 million in 2001. Agriculture provided work to 40% of the labor force, with another 40% engaged in services and the remaining 20% in industry. The estimated unemployment rate was 17%.

Employees have the right to form or join unions freely. A confederation of independent trade unions has emerged with the abandonment of the old centralized Soviet trade unions. Georgia's main trade union is the Amalgamated Trade Unions of Georgia. Workers are permitted to engage in collective bargaining, but this practice is not extensive.

The minimum employment age is 16 except in unusual circumstances, and this minimum employment age is generally respected. The government sets public-sector salaries dependent on the pay grade of the employee. The lowest such wage was \$10.80 per month in 2002. There is no state prescribed minimum wage for the private sector. In general, wages and salaries do not provide a decent standard of living for a family. The legal standard workweek is 41 hours with a 24-hour rest period weekly.

## 22 AGRICULTURE

About 15% of Georgia's total land area was considered arable in 1998. Since independence in April 1991, Georgian agriculture has become much more associated with the private sector; more than 60% of agricultural land is now privately owned. In 2001, agriculture accounted for an estimated 21% of GDP.

During the Soviet era, Georgia produced almost the entire citrus and tea crop and most of the grape crop for the entire Soviet Union. In 1999, production levels (in thousands of tons) included cereal grain, 766; tea, 60; vegetables and melons, 591; and grapes, 230.

## 23 ANIMAL HUSBANDRY

Meadows and pastures account for about 30% of the Georgian land area. In 2001, the livestock population included cattle, 1,118,000; sheep, 547,000; pigs, 443,000; buffaloes, 35,000; horses, 39,000; and chickens, 8,600,000. Beef production in 2001 totaled some 47,000 tons; pork, 35,000 tons; and chicken, 13,000 tons. About 710,000 tons of milk were produced in 2001, as were 21,900 tons of eggs.

In mid-1993, a ban was placed on the export of dairy products (including milk), cattle and poultry, meat and meat products, and leather. Georgia does not produce enough meat and dairy products to satisfy domestic demand. Meat imports in 2001 amounted to \$14 million.

## 24 FISHING

The Black Sea and Kura River are the main sources of the domestic catch. The total catch in 2000 was about 3,600 tons, with marine fishing accounting for 63%. Anchovies made up almost 58% of the total catch in 2000. Commercial fishing is not a significant contributor to the economy.

## 25 FORESTRY

About 44% of Georgia is covered with forests or woodlands, but the mountainous terrain inhibits forestry production. Timber production is primarily for domestic use; exports of forestry products amounted to only \$11.9 million in 2000.

## 26 MINING

Georgia had significant mineral deposits, but the future of the industry depended on a more secure climate for investment, through greater political and economic stability. Manganese was the country's foremost mineral commodity in the Soviet era, producing 5 million tons in the mid-1980s; production has since fallen precipitously, reaching 59,100 tons in 2000. Manganese came from the Chiat'ura basin; reserves of high-grade ore were almost depleted.

The Madneuli region was a major site of barite, copper, lead-zinc, gold, and silver mining. Lead and zinc were mined at the Kvaisi deposit, and arsenic was mined from the Lukhumi and Tsansa deposits. In 1995, the Georgian State Geology Committee, Gruzgeologiya, stated that Georgia had gold reserves of 250 tons and silver reserves of 1,500 tons, with another 250 tons of prospective gold reserves.

In 1996, Georgia permitted foreign firms to manage metallurgical enterprises. The Zestafoni ferroalloy plant was signed over to the Russian-Georgian Bank for Reconstruction and Development in conjunction with a US partner, North Atlantic Research, to be managed for a period of ten years.

Mine output of copper was 8,000 tons in 2000; of gold, 2,924 kg, up from 700 in 1998; and of silver, 33,884 kg. Also produced were mine lead, iron ore, barite, bentonite, decorative stones, diatomite, high-quality quartz sand, sand and gravel, semiprecious stones, talc, and zeolites.

## 27 ENERGY AND POWER

Georgia must rely on imports for most of its energy needs. Its limited oil reserves were estimated at about 35 million barrels in 2002. The country produced 2,000 barrels per day in 2001, much less than its 25,000 barrels per day of oil consumption. However, oil exploration is actively being carried out both on land and along the Black Sea coast. Oil comes primarily from Azerbaijan, natural gas and electricity from Russia. Georgia has had difficulty paying for shipments of natural gas, while electricity supplies have been cut by fighting on numerous occasions. Natural gas reserves at the beginning of 2002 were 8.5 billion cu m (300 billion cu ft).

Georgia has two oil refineries, a 106,000-barrel per day facility at Batumi and a smaller refinery at Sartichala. Georgia plans on utilizing its Black Sea ports to become a significant transshipment point for oil produced by Azerbaijan (and the other republics of central Asia). On 8 March 1996, Georgia and Azerbaijan signed a 30-year agreement to pump a portion of the oil produced in the Azeri waters of the Caspian Sea to the Georgian port of Suspa. From there, the oil will be shipped across the Black Sea to western markets via Turkey. The pipeline along this route became operational in April 1999 following substantial

upgrades. Additionally, improved ties with Iran will reduce dependence on energy imports from Russia, from which Georgia is trying to distance itself economically.

Deteriorating plants and equipment prevent Georgia's power sector from operating at full capacity, and power outages are common in many areas of the country. As with its imports of natural gas, Georgia is in arrears in paying for the electricity it has been obliged to import from Armenia, Azerbaijan, and Russia. The country has substantial untapped hydroelectric potential, however, and is planning to build two new hydroelectric plants on the Rioni River and a third, the 40-MW Minadze station, on the Kura River. In 2000, electricity production amounted to 7.2 billion kWh, of which 79% was from hydropower and 21% was from fossil fuel. Installed capacity in 2001 was 4,492 million kW. The two major power plants are a thermal plant at T'bilisi (with a capacity of 1,280,000 kW) and the Enguri hydroelectric plant (with a 1,325,000 kW capacity). Consumption of electricity in 2000 totaled 7.9 billion kWh.

Georgia is one of the 12 former Soviet republics to found the Intergovernmental Council on Oil and Gas (ICOG), which stresses international cooperation in the oil and natural gas industry and will entitle members to receive Russian energy resources in exchange for investment in Russia's oil and natural gas industries.

## 28 INDUSTRY

Heavy industry, based on the country's mineral resources, predominates, and includes metallurgy, construction materials, and machine building. Light industry includes food processing, beverage production, consumer durables, garments, and oil-processing. Hyperinflation in 1994 together with continuing political unrest severely affected industrial production. By 1995, industrial output of state enterprises was one-fifth of the 1990 level. In 1996, although industrial production rose 6% for the year, less than 20% of the country's industries were operating, most at less than 15% of capacity. In 1997 another improvement, of 7%, was recorded but in 1998, due mainly to the financial crisis in Russia, industrial production fell 2%. By the end of 1998, the privatization of small businesses was largely completed, with over 12,860 becoming privately owned. Among the large state enterprises, about 1,200 had been changed into joint stock companies, 910 of which have since been privatized. Despite a model legal framework for the privatization of its enterprises, industry in Georgia had only been 15.2% privatized as of 2002, with the construction industry at about 18.5%, mainly because of a lack of buyers. The least privatized sector is energy, where, according to a recent USAID assessment, the infrastructure borders on catastrophic failure. Growth in industrial production returned in 1999 and 2000, at 7% and 11%, respectively, but in 2001, there was a decline of 5%, due, externally, to declining export demand in non-CIS countries, and, internally, to the shutdown of most of Georgia's refinery production. Before independence, Georgia had several refineries, but by 2001, it had only two: one at the Black Sea port of Batumi with a 106,000 b/d capacity, and the other, a small 4,000 b/d refinery built in 1998 near CanArgo's Ninotsminda oil field called the Georgian-American Oil Refinery (GAOR). In 2001, the GAOR operated only between July and September, and at less than 50% capacity. In September 2001, CanArgo shut it down, announcing plans to build a \$200 million refinery in its place that would have a 30,100 b/d capacity. In 2002, the Batumi refinery was also closed, undergoing a \$250 upgrade and expansion directed by the Mitsui Corporation. As a result, Georgia has been obliged to import over 90% of its petroleum products. Mitsui has undertaken the work without Georgian government guarantees of its investment. The lack of such guarantees caused two other Japanese companies, Marubeni and JGC, to drop out of the

project. Georgia's most promising development industrially came in December 2002, when agreement was announced for the construction of Georgia's part of the Baku-Tbilisi-Ceyhan (BTC) pipeline, with construction to begin in March 2003.

## 29 SCIENCE AND TECHNOLOGY

The Georgian Academy of Sciences has departments of mathematics and physics, earth sciences, applied mechanics, machine building, and control processes, chemistry and chemical technology, agricultural science problems, biology, and physiology and experimental medicine. Georgia has 44 research institutes, many attached to the academy, conducting research concerning agriculture, fisheries, and veterinary science; and medicine, natural sciences, and technology. The academy's Sukhumi Botanical Garden is maintained at Chavchavadze. The Scientific and Technical Library of Georgia, with more than 10 million volumes in 1996, is located in T'bilisi. Eight colleges and universities offer degrees in basic and applied sciences. In 1987-97, science and engineering students accounted for 39% of university enrollment.

## 30 DOMESTIC TRADE

The war in Abkhazia severely disrupted domestic trade in 1993 and hyperinflation in 1994 led to widespread fighting in the nation and catastrophic economic decline. Economic conditions began to improve by the mid-1990s following the influx of foreign aid. Agriculture continues to be a primary basis for the domestic economy. The fastest growing segment of the economy, however, is in services, which accounted for about 55% of the GDP in 2002. Small privately owned shops are still more prevalent than supermarkets or larger retail establishments. Business hours are generally from 9 AM to 6 PM, Monday through Friday.

## 31 FOREIGN TRADE

Traditionally Georgia has been heavily dependent on Russia for power, bridges, roads, and other economic essentials. In return, Georgia sends Russia fruit, wine, and other agricultural products. Georgia's current government, however, is pursuing closer links with the EU and Turkey.

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Turkey	75	104	-29
Russia	70	92	-22
Germany	34	50	-16
Azerbaijan	21	55	-34
Armenia	14	14	0
Italy	12	17	-5
Ukraine	11	35	-24
United Kingdom	10	23	-13
United States	7	36	-29
Bulgaria	2	16	-14

## 32 BALANCE OF PAYMENTS

Georgia's high level of imports, until 2000, was largely due to its capital account surplus, stemming from the inflows of investments, loans, and grants, rather than from weak export performance. Georgia's capital account subsequently fell into deficit.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Georgia's exports was \$515 million while imports totaled \$750 million resulting in a trade deficit of \$235 million.

The International Monetary Fund (IMF) reports that in 2000 Georgia had exports of goods totaling \$459 million and imports totaling \$971 million. The services credit totaled \$206 million

and debit \$216 million. The following table summarizes Georgia's balance of payments as reported by the IMF for 2000 in millions of US dollars.

<b>Current Account</b>	-269
Balance on goods	-512
Balance on services	-10
Balance on income	118
Current transfers	135
<b>Capital Account</b>	-5
<b>Financial Account</b>	93
Direct investment abroad	1
Direct investment in Georgia	131
Portfolio investment assets	3
Portfolio investment liabilities	...
Other investment assets	-8
Other investment liabilities	-34
<b>Net Errors and Omissions</b>	187
<b>Reserves and Related Items</b>	-6

### 33 BANKING AND SECURITIES

The National Bank of Georgia (NBG), the state's central bank, was founded in 1991. The NBG has the functions of a central bank, namely issuing currency, managing the exchange rate, controlling monetary and credit aggregates, and regulating the activities of the banking sector. Among the more important NBG actions recently has been an increase of the minimum capital requirement from 500 Lari (\$385) in 1997 to five million Lari (\$2.4 million) in 2001.

In September 1995 Georgia introduced a new currency, the Lari, to replace its interim currency, the coupon, at the rate of Lari 1=coupon 1,000,000. The coupon had been introduced in May 1993 after the collapse of the rouble zone in response to a severe cash shortage in the republic. The coupon experienced one of the steepest devaluations of any currencies in the former Soviet Union, plummeting from around coupon 1,000 = \$1 shortly after its introduction to coupon 1,550,000=\$1 by December 1994. The coupon was scarcely used by the private sector, where the majority of transactions were carried out in dollars and roubles.

The government has since had more success with the Lari. The new currency was introduced at Lari 1.3 = \$1, and given the dramatic success in reducing inflation, by the end of November 1996 it had appreciated in nominal terms slightly to trade around 1.28=\$1. However, by 2001, it had lost some value, trading at 2.07=\$1.

At the time of independence there were, in addition to the NBG, five specialized commercial banks, about 200 small domestic commercial banks, and the former Georgian branches of the Soviet Savings Bank and Vneshekonombank. During 1993 and 1994, a large number of small banks were set up, peaking at 227 by mid-1994. Several of these have since collapsed, leaving creditors bankrupt. In December 1994, the central bank stripped 28 commercial banks of their licenses on the ground that they had insufficient funds. In June 1995, the head of the central bank, Nodar Javakhishvili, moved to further stiffen capital requirements and stripped 22 more banks of the licenses. This was followed in July and August with similar measures that resulted in 58 additional banks losing their licenses. Also during 1995 was the merger of three state banks (Eximbank, Industrial Bank, and the Savings Bank) into the United Georgian Bank. State-owned banks accounted for some 75% of banking sector assets.

The first foreign bank, the Georgian-US bank, was opened in T'bilisi in early 1994. In September 1996 a joint investment bank began its operations with its founding capital contributed by the United Georgian Bank, the Commercial Bank of Greece, and the European Bank for Reconstruction and Development (EBRD). Emlak Bankasi, a Turkish bank, and the Caucasus Development

Bank, based in Azerbaijan, currently maintain offices in T'bilisi. In 1997, the EBRD announced that it is to lend \$5 million to Absolute Bank, a US-Georgian joint venture, with 60% US ownership. The bank has \$3 million in assets, making it one of the largest Georgian banks in terms of capital.

Other commercial banks include the Agricultural Bank (1991), the Bank of Industry and Construction (1991), Housing Bank of Georgia (1991), and the State Savings Bank (1989). The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$190.2 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$356.0 million. The money market rate, the rate at which financial institutions lend to one another in the short term, was 17.5%.

The Caucasian Exchange, a stock exchange, opened recently in Georgia.

### 34 INSURANCE

Georgia's insurance system is largely inherited from government-controlled Soviet institutions. The civil war impairs growth of the insurance sector.

### 35 PUBLIC FINANCE

Georgia has been notorious for mismanaging its budget. In 1999, the IMF put one of its programs in the country on hold because Georgia could not meet the conditional budgetary targets the IMF set forth. A more realistic budget in the second half of 2000 paved the way for a new IMF program beginning in January 2001. Georgia's progress towards those new budgetary goals has been uneven, but it has remained on track.

The US Central Intelligence Agency (CIA) estimates that in 2001 Georgia's central government took in revenues of approximately \$499 million and had expenditures of \$554 million. Overall, the government registered a deficit of approximately \$55 million. External debt totaled \$1.7 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>499</b>
Tax revenue	83.1%	415
Non-tax revenue	8.5%	43
Grants	8.3%	42
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>1,006</b>
General public services	50.0%	502
Defense	2.4%	24
Public order and safety	5.0%	50
Education	2.3%	23
Health	2.5%	25
Social security	16.3%	164
Housing and community amenities	0.3%	3
Recreation, cultural, and religious affairs	1.5%	15
Economic affairs and services	4.0%	40
Other expenditures	5.5%	55
Interest payments	10.4%	105

### 36 TAXATION

In 1996, Georgia repealed a law granting tax incentives to foreign investors in favor of a regime granting national treatment in all but a few cases, and which reduced top corporate rates of 30% and 35% to a top rate of 20%. By the Tax Code of 1997, all companies, foreign and domestic, are subject to both central and local taxes, as well as being liable for payments to social funds. Principal corporate taxes include a profits tax of 20% on

companies, both foreign and domestic, permanently established in Georgia. Taxes on dividends, interest, and management fees are withheld at the source at a rate of 10%. Foreign entities not permanently established pay withholding of 10% on dividends, interest, and royalty payments, and withholding of 4% on insurance premiums and payments for international telecommunications and transportation services. A 1% tax on property of enterprises (TPE) is charged foreign companies that have permanent establishments in Georgia. There is also a personal income tax, paid by resident and non-resident individuals, which has four brackets, the first one being a negative income tax of 12% up to an income of 200 lari (about \$93). For 201 to 350 lari (about \$165), the tax is 24 lari (\$11) plus 15%. For 351 to 600 lari (\$286), the tax is 46.5 lari (\$22) plus 17%. Above 600 lari, the tax is 98 lari (\$42) plus 20%. Social charges are deducted from employees salaries, 15% for the health protection fund, and 1% for the social security fund. Employers' contributions are 3% for the health protection fund, 27% for social security, and 1% for unemployment. There is also a value-added tax (VAT) of 20% (reduced from 28%), in addition to various excise taxes, ranging from 10% to 90%.

Georgia has one of the worst rates of tax compliance in the world. Chronic shortfalls in revenue collection means that the state must turn to external financing and loans from the National Bank of Georgia to make up for budget deficits. External borrowing to cover budget shortfalls have been the primary reason Georgia has had to turn to the IMF and the Paris Club for stand-by credit agreements and rescheduling of sovereign debt. The high rate of tax evasion puts legitimate business at a competitive disadvantage with a large "shadow economy," estimated officially to constitute 40% to 60% of the economy, but generally believed, according to the US State Department, to be much higher. Estimates of underpaying of taxes by enterprises have been close to 80%.

### **37** CUSTOMS AND DUTIES

Georgia has an open trade regime, with most commodities carrying tariffs of either 5% or 12%, although automobiles have considerably higher rates. Some goods, such as grains, humanitarian goods, and aviation fuel, are exempt from carrying customs tariffs. Imported goods are also subject to a value-added tax (VAT) of 20% and an excise tax of 5-100% is levied on luxury goods.

### **38** FOREIGN INVESTMENT

Georgia was one of the first former Soviet republics to adopt market reforms on foreign investment. However, political instability has hampered efforts to attract capital from abroad. Oil and gas pipeline projects and expanded privatization sales promised to reverse this trend. By the mid-1990s both GDP and total foreign investment began to grow steadily. In September 1998 the decision was made to make all future economic regulations in full conformity with the norms of the European Community. Legislation in 2000 extended the scope of the privatization program, created a capital market, and provided for the registration of enterprise and agricultural land, all conducive to improving Georgia's investment climate. Also in 2000, the currency appeared to have stabilized. The main hindrances to foreign investment flows are not the legal framework but pervasive corruption and arbitrary and biased administration.

Annual foreign direct investment (FDI) inflow swelled to \$242 million in 1997 and \$265.3 million in 1998 mainly due to work on the Baku-Supsa pipeline and on the Supsa terminal. FDI flows fell to an annual average of \$124.3 million 1999 to 2001. Total FDI stock from 1990 to 2000 was an estimated \$672 million. Work on the Baku-Tbilisi-Ceyhan pipeline and the Shah Deniz gas pipeline should increase FDI inflows in the near future. The

United States has been the leading source of foreign investment, accounting for about 22%.

### **39** ECONOMIC DEVELOPMENT

In late 1992, the government inaugurated its Medium-Term Program of Macroeconomic Stabilization and Systemic Change focusing on price and trade liberalization, budget constraints for public enterprises, and privatization. As part of a small enterprise privatization program, the first auction of small-scale assets was held in Tbilisi in March 1993. Practically all housing has been privatized, as well as a high percentage of agricultural land. Privatization was progressing as of 2003, and the government was developing the legal framework necessary for a good climate of investment. Nevertheless, due to a lack of enough foreign direct investment in 2003, the transportation and communication infrastructure remains in poor condition.

In spite of these reforms, political instability continues to hamper Georgian economic development. Although the Baku-Tbilisi-Ceyhan oil pipeline brings much needed foreign investment, most observers feel that the fate of the Georgian economy hinges on the ultimate fate of the Caucasus.

Corruption hampers economic development, and has undermined the credibility of the government's economic reforms. The size of the shadow economy is also a concern. The Paris Club rescheduled Georgian debt in 2001. That year, Georgia negotiated a three-year \$144 million Poverty Reduction and Growth Facility (PRGF) Arrangement with the IMF, which was due to expire in 2004. The IMF encouraged the country to implement tax reform, to improve revenue collection, strengthen the banking system, and to combat corruption and smuggling.

### **40** SOCIAL DEVELOPMENT

All employees are eligible for old age benefits which are funded primarily by employers, who contribute 27% of payroll. Disability and death are not covered. A special social pension exists for the aged and disabled who do not qualify for the employee pension system as determined by need. Paid maternity leave is provided for up to eight weeks, although it is reported that employers frequently withhold benefits. Temporary disability is only payable if the employer is responsible for the injury, although unemployment and permanent disability benefits are provided. Extremely high inflation has limited the effectiveness of the pension system. Medical services are provided to needy residents by government health officials.

Women, especially older women, mostly work in low-paying, traditional occupations, often on a part-time basis. Female participation in politics has been discouraged, and women rarely fill leadership positions in the private sector. Discrimination and harassment in the workplace are common. Violence against women is a serious problem and there are virtually no mechanisms to assist victims. Societal bias discourages the reporting of domestic abuse or sexual violence.

Human rights abuses by the police and security forces continue, often to obtain confessions or extract money. Prison conditions are inhumane and life threatening, and corruption is endemic in the judicial and law enforcement systems.

### **41** HEALTH

Since 1995 there have been wide-ranging reforms to the centralized system of health care inherited from the former Soviet Union. Staffed by a disproportionate number of specialists, and supporting a relatively high number of hospital beds, the system proved too costly and inefficient to maintain. In the period immediately following independence, financial shortages led to delayed payment, or even non-payment, of medical staff salaries; a virtual halt to investment in new medical equipment and buildings; and the emergence of a black market in pharmaceuticals. Changes in health care policy since 1995

include introduction of a health insurance system and an end to free health care outside a basic package of health benefits, as well as new systems of provider payment. The network of rural and urban primary care centers is still largely a holdover from the Soviet era, but the payment structure for services has changed. As of 1999, total health care expenditure was estimated at 2.8% of GDP.

In 1998, there were 4.7 nurses, 0.3 midwives, and 0.3 dentists per 1,000 people. As of 1999, there were a total of 246 hospitals, with 22,500 beds. In the same year, there were an estimated 4.4 physicians and 4.8 hospital beds per 1,000 people. Immunization rates for the country in 1997 were as follows: children up to one year old were vaccinated against tuberculosis, 76%; diphtheria, pertussis, and tetanus, 92%; polio, 98%; and measles, 95%.

Life expectancy in 2000 was an average of 73 years and the infant mortality rate was 17 per 1,000 live births. The total fertility rate has decreased from 2.9 children per woman of childbearing years in 1960 to 1.1 in 2000. The under five mortality rate in 1999 was 59 per 1,000 live births. The maternal mortality rate was much lower than the average in Eastern Europe. In 1995 there were 22 maternal deaths per 100,000 live births. The estimated overall mortality rate as of 2002 was 14.6 per 1,000 people. There were approximately 2,000 civil war-related deaths in 1992. There were 72 reported cases of tuberculosis per 100,000 people in 1999. In 1995, 109 cases of measles were reported. A diphtheria epidemic has spread through the former Soviet Union. In most affected countries, the incidence rate of reported diphtheria has increased two- to tenfold every year.

As of 1999, the number of people living with HIV/AIDS was estimated at fewer than 500 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was lower than 0.01 per 100 adults.

## 42 HOUSING

In western Georgia, a typical older home is wooden, raised off the ground slightly in areas where flooding or very damp ground is problematic. In the drier climate of eastern Georgia, stone (later brick) houses with flat roofs were constructed along roads. In urban regions, two-story brick or cement block homes are not uncommon.

Before independence, most urban housing was regulated by the government while most rural housing was privately owned. Beginning in the mid 1990s, legislation towards privatization led to the legalization of an open real estate market. Unfortunately, the need for adequate housing is far greater than current supplies. In 1989, there were 152,033 people registered and waiting for adequate housing. Overcrowding became a problem as extended families stayed together in one household simply because of the lack of alternative housing. Natural disasters have caused trouble for an already problematic housing situation. Mudslides are common in some areas. In 1987, a mudslide destroyed 210 homes and seriously damaged 850 more. In 1991, an earthquake destroyed 46,000 homes. Civil unrest has caused a great deal of homelessness as well. As of 2001, there were about 300,000 displaced persons throughout the country.

During 1995 a total of 55 423 sq. m. of dwelling was built in the republic, but this represented only a 4.4% increase in new dwelling are since 1987. Building costs are high, with the price of one square meter often between US\$500 and US\$1 000.

## 43 EDUCATION

Adult literacy was estimated at 99.0% in 1998, with men estimated at 99.5% and women at 98.5%. Georgia's educational system was based on the Soviet model until the late 1980s, when there was a de-emphasis of Soviet educational themes in favor of Georgian history and language. Georgian students are taught in a number of languages, including Georgian, Russian, Armenian,

Azerbaijani, Abkhazian, and Ossetian. Education is compulsory for 11 years, grades 1 to 11, beginning at age seven. In 1997 there were 757 primary schools, with 298,485 pupils and 16,487 teachers. The pupil-teacher ratio at the primary level was 17 to 1 in 1999. In the same year, 54% of those eligible attended secondary school. Public expenditure on education was estimated at 7.7% of GDP in 1995.

Several colleges and universities are located in Georgia. These include the Iran Dzhavakhladze University of T'bilisi, Georgian Technical University, Abkhazian State University, and State University of Batumi.

## 44 LIBRARIES AND MUSEUMS

The National Library in T'bilisi holds over six million volumes, while the Georgian State Public Library has eight million. The largest library in the country, however, is the Scientific and Technological Library of Georgia, which contains 10.1 million volumes. There are dozens of private libraries held by various scientific, cultural, and religious organizations and extensive university library holdings. Chief among the latter are T'bilisi State University (three million volumes), the Polytechnic University in T'bilisi (1.14 million volumes), and the Pedagogical Institute in T'bilisi (336,000 volumes).

Most of the country's cultural institutions are in T'bilisi, including the State Art Museum, the Museum of Fine Arts, the State Museum of Georgia, the T'bilisi Museum of History and Ethnography, and the Georgian State Museum of Oriental Art. There are local or specialty museums in Gori, Suchumi, and Kutaisi.

## 45 MEDIA

Georgia has international telecommunications links via landline to other former Soviet republics and Turkey. There is also a low capacity satellite earth station and connections via Moscow. As of 1997, there were 620,000 main line telephones in use. A 2000 report indicated there were an additional 185,500 mobile cellular phones. As of 1998, there were 7 AM and 12 FM radio broadcast stations. A 2001 report indicated there were about 67 television stations, many of which are only regional. In 2000, there were 556 radios and 474 television sets per 1,000 people. The same year, there were six Internet service providers serving only about 20,000 people.

In 2001, there were about 200 independent newspapers throughout the country. The most widely read was *Sakartvelos Respublika*, with a 1995 circulation of 40,000. In T'bilisi, the major daily is *Vestnik Gruzzi* (*Georgian Herald*). There are also several general and special interest periodicals available.

The Constitution and a 1991 press law provide for a free press, but in practice the government is said to restrict some press rights. Libel laws, as well as pressure from business and society leaders and government authorities, inhibit hard core investigative reporting.

## 46 ORGANIZATIONS

Georgia's Chamber of Commerce and Industry promotes trade and commerce with its fellow members of the CIS. Union organizations in Georgia include the Confederation of Independent Trade Unions, an umbrella organization. Important political organizations include the all-Georgian Mecrab Kostava Society and the Paramilitary group Mkhredioni.

The Georgian Academy of Sciences, promoting research and education in all branches of science, was established in 1941. Youth organizations include the National Youth Council of Georgia (throughout the Department of Youth and Sport), the United Nations of Youth: Georgia, and scouting programs.

## 47 TOURISM, TRAVEL, AND RECREATION

Bounded by the Black Sea and the Caucasus Mountains, Georgia has been known for its lucrative tourist industry, but tourism has stagnated since independence due to political and economic turmoil. Mt. Shkhara, the ancient capital, is home to the Svetitskhoveli Cathedral, an 11th-century edifice that is the spiritual center of the Georgian Orthodox Church and a major tourist attraction. The present-day capital, T'bilisi, is over 1,000 years old and offers historic citadels, cathedrals, and castles as well as warm springs and dramatic mountain views.

In 2000, 387,258 tourists arrived in Georgia and receipts for that year totaled \$413 million. There were 3,182 beds in hotels and other establishments with a 34% occupancy rate. In 2003 the US government estimated the cost of staying in T'bilisi at \$220 per day.

## 48 FAMOUS GEORGIANS

Eduard A. Schevardnadze (b.1928), a key figure in the Soviet government, has been president of Georgia since 1992. Joseph Stalin (1879–1953), a key figure in the Soviet period, was born in Gori, Georgia. The medieval poet Shota Rustaveli, who was from Georgia, wrote the masterpiece *Knight in the Tiger's Skin*. Nineteenth-century poets include Ilia Chavchavadze (1837–1907), Akaki Tsereteli (1840–1915), and Vazha Pshwda. Writers

of that century include Titsian Tabidze (1895–1937), Gioigi Leonidze, and Irakli Abashidze. Painters include Niko Pirosmanashvili (1862–1918), and Irikli Toidze. Composers include Zakhari Paliashvili (1871–1933) and Meliton Balanchivadze (1862–1937).

## 49 DEPENDENCIES

Georgia has no territories or colonies.

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# GERMANY

Federal Republic of Germany  
*Bundesrepublik Deutschland*

**CAPITAL:** Berlin

**FLAG:** The flag is a tricolor of black, red, and gold horizontal stripes—the flag of the German (Weimar) Republic from 1919 until 1933.

**ANTHEM:** *Einigkeit und Recht und Freiheit (Unity and Justice and Liberty)*.

**MONETARY UNIT:** The euro replaced the deutsche mark as the official currency in 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Labor Day, 1 May; German Unity Day, 3 October; Repentance Day, Wednesday before the 3rd Sunday in November (except Bavaria); Christmas, 25–26 December. Movable religious holidays include Good Friday, Easter Monday, Ascension, and Whitmonday. In addition, the movable Carnival/Rose Monday holiday and various provincial holidays also are celebrated.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Germany is located in western Europe, bordering the North Sea between France and Poland. Germany is slightly smaller than the state of Montana, with a total area of 357,021 km sq (137,847 mi sq). Germany shares boundaries with Denmark and the Baltic Sea (north), Poland and the Czech Republic (east), Austria (southeast), Switzerland (south), France (southwest), Luxembourg, Belgium, and the Netherlands (west), and the North Sea (northwest). Germany's boundary length totals 6,010 km (3,734 mi), of which 2,389 km (1,484 mi) is coastline. Germany's capital city, Berlin, is located in the northeastern part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Germany is varied. The area along the Baltic coast is sandy, with dunes and small hills. Adjacent to the coast are forested ridges and numerous lakes of the Mecklenburg lake plateau. Around Berlin, the relief is less hilly. The southern limit of the lowland area is formed by a wide zone of fertile loess, reaching from Magdeburg to the highlands in the South. These highlands include the Harz Mountains; the densely wooded Thuringian Forest and the Erzgebirge (Ore Mountains), where the Fichtelberg rises to 1,214 m (3,983 ft). In the northeast, the wide German lowland—characterized by sandy North Sea shores, heath and moor (in the South), and highest altitudes of about 300 m (1,000 ft)—rises slowly to the central Germany uplands. These low, eroded mountains (1,070–1,520 m/3,500–5,000 ft) extend from the Rhine to the former border of East Germany. In the West are a wide rift valley and a narrow gorge carved by the Rhine River. A group of plateaus and low mountains, averaging 460 m (1,500 ft) in altitude and including the Black Forest and Odenwald Mountains (highest peak, the Feldberg, 1,493 m/4,898 ft), form the greater part of southern Germany. They merge gradually with the highest walls of the Bavarian Alps (2,440–2,740 m/8,000–9,000 ft), which form the boundary between

Germany, Switzerland, and Austria; the Zugspitze (2,962 m/9,718 ft), on the Austrian border, is the highest point in Germany.

The only major lake is Lake Constance (Bodensee; within Germany, 305 sq km/118 sq mi), which is shared with Switzerland and Austria. Except in the extreme south, all of Germany is drained by rivers that empty into the North Sea. The Rhine, with its two main tributaries, the Mosel and the Main, dominates the western areas; farther east are the Ems, the Weser, the Elbe, and the Oder. These rivers have estuaries that are important for the ports located there. In the South, the Danube flows from west to east. The East Frisian Islands are off the northwest coast; the North Frisian Islands lie along the coast of Schleswig. The small island of Helgoland is opposite the mouth of the Elbe River.

## <sup>3</sup>CLIMATE

The climate is temperate; rapid changes in temperature are rare. Average temperatures in January, the coldest month of the year, range from 1.5°C (35°F) in the lowlands to -6°C (21°F) in the mountains. July is the warmest month of the year, with average temperatures between 18°C (64°F) in low-lying areas to 20°C (68°F) in the sheltered valleys of the south. The upper valley of the Rhine has an extremely mild climate. Upper Bavaria experiences a warm alpine wind (*Föhn*) from the south. The Harz Mountains form their own climatic zone, with cool summers, cold wind, and heavy snowfalls in winter.

Precipitation occurs throughout the year: in the northern lowlands, from 51 to 71 cm (20–28 in); in the central uplands, from 69 to 152 cm (27–60 in); in the Bavarian Alps, to more than 200 cm (80 in). The higher mountains are snow covered from at least January to March.

## <sup>4</sup>FLORA AND FAUNA

Plants and animals are those generally common to middle Europe. Beeches, oaks, and other deciduous trees constitute one-third of the forests; conifers are increasing as a result of reforestation. Spruce and fir trees predominate in the upper

mountains, while pine and larch are found in sandy soil. There are many species of ferns, flowers, fungi, and mosses. Fish abound in the rivers and the North Sea. Wild animals include deer, wild boar, mouflon, fox, badger, hare, and small numbers of beaver. Various migratory birds cross Germany in the spring and autumn.

## 5 ENVIRONMENT

Industrialization has taken its toll on Germany's environment, including that of the former GDR, which, according to a 1985 UNESCO report, had the worst air, water, and ground pollution in Europe. Since 1976, the Petrol Lead Concentration Act has limited the lead content of gasoline; for control of other automotive pollutants, the government looked toward stricter enforcement of existing laws and to technological improvements in engine design. The Federal Emission Protection Act of 1974, based on the "polluter pays" principle, established emissions standards for industry, agriculture and forestry operations, and public utilities. Nevertheless, by 1994, 50% of Germany's forests had been damaged by acid rain.

Germany has 107 cu km of renewable water resources, of which 86% are used for industrial purposes. Water pollution is evident in virtually every major river of the FRG, and the Baltic Sea is heavily polluted by industrial wastes and raw sewage from the rivers of eastern Germany. In the 1980s, the Rhine, from which some 10 million Germans and Dutch draw their drinking water, was 20 times as polluted as in 1949. Between November 1986 and January 1987 alone, 30 tons of mercury, 900 lb of pesticides, 540 tons of nitrogen fertilizers, and 10 tons of benzene compound were discharged into the river. The Effluency Levies Act, effective January 1978, requires anyone who discharges effluents into waterways to pay a fee reckoned in accordance with the quantity and severity of the pollutant; the proceeds of this act are allocated for the building of water treatment plants and for research on water treatment technology and reduced-effluent production techniques.

Significant sources of air pollution include emissions from coal-burning utility plants and exhaust emissions from vehicles using leaded fuels. In 1996 industrial carbon dioxide emissions totaled 861 million metric tons. Germany produces about 21.5 million tons of solid wastes and 15,659 tons of hazardous waste materials per year. The nation has set maximum levels for biocides in the soil, to protect food supplies. Under the nation's basic waste disposal law of 1972, some 50,000 unauthorized dump sites have been closed down and 5,000 regulated sites established; provisions governing toxic wastes were added in 1976. Germany's principal environmental agency is the Ministry of Environment, Nature Conservation and Reactor Safety, created in June 1986.

In 1970, the first German national park, with an area of 13,100 hectares (32,370 acres), was opened in the Bavarian forest, and in 1978 a second national park (21,000 hectares/52,000 acres) was opened near Berchtesgaden. The third national park, in Schleswig-Holstein (285,000 hectares/704,250 acres), opened in 1985, and a fourth, in Niedersachsen (240,000 hectares/593,000 acres), opened in 1986. As of 2001, 26.9% of Germany's total land area is protected. Of Germany's 76 animal species, 8 are endangered, as are 5 of 239 breeding bird species and 7 freshwater fish species out of 71. In addition, 3 plant species are threatened with extinction. Endangered species include Freya's damselfly, Atlantic sturgeon, slender-billed curlew, and the bald ibis. Species believed to be extinct include the Bavarian pine vole, Tobias' caddisfly, and the false ringlet butterfly.

## 6 POPULATION

The population of Germany in 2003 was estimated by the United Nations at 82,476,000, which placed it as number 12 in

population among the 193 nations of the world. In that year approximately 16% of the population was over 65 years of age, with another 16% of the population under 15 years of age. There were 96 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.07%, with the projected population for the year 2015 at 82,497,000. The population density in 2002 was 231 per sq km (598 per sq mi).

It was estimated by the Population Reference Bureau that 88% of the population lived in urban areas in 2001. The capital city, Berlin, had a population of 3,324,000 in that year. Other large urban areas included the following: Essen, 6,559,000; Frankfurt, 3,700,000; Düsseldorf, 3,251,000; Cologne (Köln), 3,067,000; Hamburg, 2,680,000; Stuttgart, 2,688,000; Munich (München), 2,306,000; Mannheim, 1,617,000; Hanover (Hannover), 1,293,000; Bielefeld, 1,304,000; Nuremberg (Nürnberg), 1,199,000; Aachen, 1,069,000; Karlsruhe, 985,000; Saarland, 898,000; and Bremen, 887,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.2%.

Because of a low birthrate and an aging population, the Federal Republic of Germany (FRG) fell in population between 1973–78 and 1982–86. Germany lost population not only because of these factors but also because of emigration. A heavy influx of immigrants in the 1990s more than compensated for the slight population loss due to more deaths than births. Although the annual growth rate in the 1980s was only 0.1%, immigration in the 1990s led to an annual growth rate of 0.8%.

## 7 MIGRATION

From 1946 to 1968, 475,505 Germans emigrated to the United States, 262,807 to Canada, and 99,530 to Australia and Oceania. During the same period, however, millions of people of German origin and/or speech migrated to the FRG from eastern Europe, notably from the former Czechoslovakia and GDR. Migration from the GDR to the FRG reached a climax just before the erection of the frontier wall in Berlin on 13 August 1961. It is estimated that about 4 million people—many of them skilled workers and professionals—crossed from the GDR to the FRG during the 40-year existence of the GDR. Immigration of ethnic Germans from Poland continued to be heavy after 1968, totaling about 800,000 between 1970 and 1989.

According to German law, persons who are not ethnic Germans are foreigners (except for the few granted citizenship) even if they were born and have spent their entire lives in Germany. Conversely, ethnic Germans are not foreigners even if emigrating from birthplaces and homes in eastern Europe.

In May 1996, 560,000 ethnic Germans (out of a total of 1.1 million in 1989) had left Central Asia for Germany since 1992. These returning ethnic Germans were formerly deported by Stalin during World War II as they were living in the Volga region and other parts of the former Soviet Union.

Germany remains the largest asylum country in Europe, receiving 104,353 applications in 1997 and 98,644 in 1998. The main countries of origin were the Federal Republic of Yugoslavia, Turkey, Iraq, Afghanistan, Vietnam, and Iran. Some 350,000 Bosnians were granted temporary protection in Germany in the early 1990s. Repatriation plans began for the Bosnians in October 1996, when 30,000 Bosnians repatriated voluntarily. During 1998, approximately 83,000 people returned to Bosnia under the Government-Assisted Return Programme (GARP). Another 2,021 were returned forcibly. By 1999, more than 250,000 Bosnians had returned to their homeland.

On 10 October 1996, Germany and the Federal Republic of Yugoslavia reached a repatriation agreement for 135,000 Yugoslavs to return over the next three years.

Under the UNHCR/IOM Humanitarian Evacuation Programme, 14,689 people had been evacuated from Macedonia



to Germany as of 1999. The evacuees, as well as Kosovars who had already sought asylum in Germany but whose cases were still pending or already rejected, were granted temporary protection, renewable every three months. As of 20 August 1999, 4,147 evacuees had returned to their homeland.

In 1999, Germany's net migration rate was 2.12 migrants per 1,000 population.

## **8 ETHNIC GROUPS**

Until the late 1950s, the population was 99% German; the Danes in Schleswig-Holstein were the sole national minority. The influx of foreigners as "guest workers" beginning in the late 1950s led to an upsurge in the number of permanent foreign residents. Germans constituted 91.5% of the total population in 1998. Of the foreigners in Germany, Turks were by far the largest group, numbering 2.4% of the population. Italians accounted for 0.7%; Greeks for 0.4%; Poles made up 0.4%; and various other groups—made up largely of people fleeing the war in the former Yugoslavia—made up the remaining 4.6%. Even persons born and reared in Germany are considered foreigners unless ethnically German or naturalized.

As joblessness increased in the 1980s and early 1990s, tensions arose between minority residents and young working-class youths, described as skinheads, who were influenced by neo-Nazi propaganda. This was true even in the former GDR.

## **9 LANGUAGES**

German is the official language, and although dialectical variations are considerable, High German is standard. Low German, spoken along the North and Baltic Sea coasts and in the offshore islands, is in some respects as close to Dutch as it is to standard German. Sorbian (also known as Wendish or Lusatian) is a Slavic language spoken by the Sorbian minority. Under the GDR it was taught in schools in their settlement area. There was a daily newspaper in Sorbian and a publishing house for Sorbian literature. Many of Germany's sizable foreign-born population still speak their native languages, and there are numerous Turkish-speaking school children.

In 1996, new rules were established reforming German orthography. Designed to eliminate the last vestiges of Gothic spelling, the rules, among other things, eliminated hyphens, restored some umlauts, and replaced the ß character. Confusion ensued when newly published dictionaries differed in their spellings of many words.

## **10 RELIGIONS**

The reunification of Germany in 1990 ended some forty years of religious, as well as political separation. Freedom of religion is guaranteed, and although there is no official state religion, churches can receive financial support from the government. In 2002, the Evangelical Church, a federation of several church bodies including Lutheran, Uniate, and Reformed Protestant Churches, had some 27 million members, who constituted 33% of the population. The Catholic Church also had 27 million members, or 33% of the population. Muslims made up approximately 3% to 4% of the populace with 2.8 to 3.2 million practitioners. Orthodox churches claimed 1.1 million members, or 1.3% of the people. The Greek Orthodox Church is the largest, followed by Romanian, Serbian, Russian (Moscow Patriarchate and Orthodox), Syrian, and Armenian Apostolic. Other Christian churches had about 1 million subscribers, or 1.2% of the population. The largest of these are the New Apostolic Church (430,000 members) Jehovah's Witnesses (165,000 members), Baptists (87,000 members), and Methodists (66,000 members). A total of some 87,500 members of Jewish congregations lived in Germany in 2002, making up 0.1% of the populace. According to press reports, the Jewish population is growing rapidly, with more than 100,000 Jews from the former

Soviet Union joining the country's established Jewish population since 1990. There were also small numbers of Unification Church members, members of the Church of Scientology, Hare Krishnas, members of the Johannish Church, the International Grail Movement, Ananda Marga, and Sri Chinmoy. Approximately 21.8 million people, or 26.6% of the population, belonged to smaller religious organizations or had no religious affiliation at all.

## **11 TRANSPORTATION**

Although the German transportation network was heavily damaged during World War II, the FRG system is now one of the best developed in Europe (although much of the infrastructure in the former GDR needs significant improvement). Because of the FRG's central location, almost all continental surface traffic has to cross its terrain. In 2002, the railroad system consisted of 44,000 km (27,341 mi) of operational track, with the greater part operated by the government-owned Federal Railways System. About 20,300 km (12,614 mi) of the trackage is electrified.

Highways and roads in 2002 totaled 656,074 km (407,684 mi), of which 650,169 km (404,02 mi) were paved. As of 2000, there were 43,623,454 passenger cars and 4,685,773 commercial vehicles registered.

The total length of regularly used navigable inland waterways and canals was 7,500 km (4,660 mi) in 2002. Canals link the Elbe with the Ems, the Ems with the Dortmund, and the Baltic with the North Sea. The most important inland waterway consists of the Rhine and its tributaries, which carry more freight than any other European waterway. The Kiel Canal is an important connection between the Baltic Sea and North Sea. Major ports and harbors include Berlin, Bonn, Brake, Bremen, Bremerhaven, Cologne, Dresden, Duisburg, Emden, Hamburg, Karlsruhe, Kiel, Lubeck, Magdeburg, Mannheim, Rostock, and Stuttgart. In 2001, the FRG had a merchant fleet comprised of 388 ships with a combined capacity of 5,758,942 GRT.

Germany had 625 airports in 2001, of which 328 had paved runways. Major airports include Schönefeld, Tegel, and Tempelhof at Berlin, Halle at Leipzig, Osnabrück at Münster, as well as those at Bremen, Dresden, Frankfurt, Düsseldorf, Hamburg, Hanover, Cologne-Bonn, Stuttgart, Nuremberg, and Munich. Lufthansa, organized in 1955, is the major air carrier; its route network includes both North and South America, the Near and Far East (including Australia), Africa, and Europe. In 2001, 57,334,300 passengers were carried on scheduled domestic and international airline flights, and 7,026 million freight ton-km (4,365 million freight ton-mi) of service was performed.

## **12 HISTORY**

Otto I, greatest of a new Saxon dynasty, united Germany and Italy and was crowned first Holy Roman emperor in 962. The strength of the rising Holy Roman Empire was undercut, however, by the two-pronged involvement in Italy and in Eastern Europe. Successive generations of Germanic emperors and of various ducal families engaged in constant struggles within Germany as well as with the papacy, and dispersed their energies in many ventures beyond the confines of the empire. Frederick I (Barbarossa, r.1152–90), of the Hohenstaufen family, overcame the last of the powerful duchies in 1180. His grandson Frederick II (r.1212–50), the most brilliant of medieval emperors, reigned from Sicily and took little interest in German affairs. Four years after his death, the empire broke up temporarily, and there followed a 19-year interregnum. In 1273, Rudolf of Habsburg was elected emperor, but neither he nor any of his immediate successors could weld the empire into a manageable unit. Hunting and gathering peoples roamed the land now known as Germany for thousands of years before the first farmers appeared in the sixth millennium BC. By the time these Indo-Europeans made contact with the Romans late in the 2nd century BC, the Teutons



LOCATION: 47°16' to 55°4' N; 5°52' to 15°2' E. BOUNDARY LENGTHS: Denmark, 68 kilometers (42 miles); Poland, 456 kilometers (285 miles); Czech Republic, 646 kilometers (403 miles); Austria, 784 kilometers (487 miles); Switzerland, 334 kilometers (208 miles); France, 451 kilometers (281 miles); Luxembourg, 138 kilometers (86 miles); Belgium, 167 kilometers (104 miles); Netherlands, 577 kilometers (358 miles); total coastline, 2,389 kilometers (1,480 miles). TERRITORIAL SEA LIMIT: 12 miles.

of the north had driven most of the Celts westward across the Rhine. During the succeeding centuries, Germanic tribes such as the Alemanni, Burgundians, Franks, Lombards, Vandals, Ostrogoths, and Visigoths gradually developed in the territory between the Rhine estuary in the west, the Elbe River in the east,

and northern Italy in the south. Some of these peoples, whom the Romans called barbarians (from the Latin *barbari*, meaning “foreigners”), overran Italy and helped destroy the Roman Empire; others settled in Britain, France, and Spain. The area on either side of the Rhine was contested until Charlemagne, king of

the Franks (r.768–814), extended his domain to include most of Germany as far as the Elbe; he was crowned emperor at Rome in 800. Charlemagne's empire was eventually divided among his three grandsons, and the German sector itself was divided in the latter part of the 9th century.

The Holy Roman Empire's loose and cumbersome framework suffered from lack of strong national authority at the very time when powerful kingdoms were developing in England, France, and Spain. In the ensuing period, the Holy Roman emperors tended to ally themselves against the nobility and with the prosperous German cities and with such potent confederations of towns as the Hanseatic and Swabian leagues. During the 15th century and part of the 16th, Germany was prosperous: commerce and banking flourished, and great works of art were produced. However, the already weak structure of the empire was further undermined by a great religious schism, the Reformation, which began with Martin Luther in 1517 and ended in the ruinous Thirty Years' War (1618–48), which directly and indirectly (through disease and famine) may have taken the lives of up to 2 million people. Thereafter, Germany remained fragmented in more than 300 principalities, bishoprics, and free cities. In the 18th century, Prussia rose to first rank among the German states, especially through the military brilliance of Frederick II ("the Great," r.1740–86).

During the French Revolution and the Napoleonic wars, German nationalism asserted itself for the first time since the Reformation. Although frustrated in the post-Napoleonic era, the nationalist and liberal movements were not eradicated, and they triumphed briefly in the Frankfurt parliament of 1848. Thereafter, a number of its leaders supported the conservative but dynamic Prussian chancellor, Otto von Bismarck. After a series of successful wars with Denmark (1864), Austria (the Seven Weeks' War, 1866), and France (the Franco-Prussian War, 1870–71), Bismarck brought about the union of German states (excluding Austria) into the Second Empire, proclaimed in 1871.

Germany quickly became the strongest military, industrial, and economic power on the Continent and joined other great powers in overseas expansion. While Bismarck governed as chancellor, further wars were avoided and an elaborate system of alliances with other European powers was created. With the advent of Wilhelm II as German emperor (r.1888–1918), the delicate international equilibrium was repeatedly disturbed in a series of crises that culminated in 1914 in the outbreak of World War I. Despite initial successes, the German armies—leagued with Austria-Hungary and Turkey against the United Kingdom, France, Russia, and eventually the United States—were defeated in 1918. As a consequence of the war, in which some 1,600,000 Germans died, the victorious Allies through the Treaty of Versailles (1919) stripped Germany of its colonies and of the territories won in the Franco-Prussian War, demanded the nation's almost complete disarmament, and imposed stringent reparations requirements. Germany became a republic, governed under the liberal Weimar constitution. The serious economic and social dislocations caused by the military defeat and by the subsequent economic depression, however, brought Adolf Hitler and the National Socialist (Nazi) Party to power in 1933. Hitler converted the republic into a dictatorship, consolidated Germany's position at home and abroad, and began a military expansion that by 1939 had brought a great part of Europe under German control, either by military occupation or by alliance, leading to World War II.

Germany signed a military alliance with Italy on 22 May 1939 and a nonaggression pact with the former USSR on 23 August. Hitler's army then invaded Poland on 1 September, and France and Britain declared war on Germany two days later. France surrendered on 22 June 1940; the British continued to fight. On 10 December 1941, Germany declared war on the United States, three days after the attack on Pearl Harbor by its ally Japan.

Hitler's troops were engaged on three major fronts—the eastern front (USSR), the North African front, and the western front (France). Hitler relied heavily on air power and bombed Britain continuously during 1941–42. But by 1943, German forces were on the defensive everywhere, thus marking the beginning of the end of the Nazi offensive thrusts. Finally, on 7 May 1945, after Hitler had committed suicide, the Allies received Germany's unconditional surrender. It is estimated that more than 35 million persons were killed during World War II. Of this number, at least 11 million were civilians. Among them were nearly 6 million Jews, mostly eastern Europeans, killed in a deliberate extermination by the Nazi regime known as the Holocaust; there were also about 5 million non-Jewish victims, including Gypsies, homosexuals, political dissidents, and the physically and mentally handicapped.

### From Division to Reunification

After the surrender in 1945, Germany was divided into four occupation zones, controlled respectively by the former USSR, the United States, the United Kingdom, and France. Berlin was likewise divided, and from April 1948 through May 1949 the USSR sought unsuccessfully to blockade the city's western sectors; not until the quadripartite agreement of 1971 was unimpeded access of the FRG to West Berlin firmly established. In 1949, pending a final peace settlement, Germany was divided into the Federal Republic of Germany, or West Germany, consisting of the former UK, French, and US zones of occupation, and the German Democratic Republic, or East Germany, consisting of the former Soviet zone of occupation. Territories in the east (including East Prussia), which were in German hands prior to 1939, were taken over by Poland and the former USSR.

The FRG's first chancellor (1949–63), Konrad Adenauer, the leader of the Christian Democratic Union (CDU), followed a policy of "peace through strength." During his administration, the FRG joined NATO in 1955 and became a founding member of the EC in 1957. That same year, the Saar territory, politically autonomous under the Versailles Treaty but economically tied to France after 1947, became a German state (Land) after a free election and an agreement between France and the FRG. A treaty of cooperation between those two nations, signed on 22 January 1963, provided for coordination of their policies in foreign affairs, defense, information, and cultural affairs. The cost of this program of cooperation with the West was further alienation from the GDR and abandonment, for the foreseeable future, of the goal of German reunification. Many citizens, including a significant number of skilled and highly educated persons, had been covertly emigrating through Berlin in the West, and on 13 August 1961, East Berlin was sealed off from West Berlin by a wall of concrete and barbed wire. The Western Allies declared that they accepted neither the legality nor the potential practical consequences of the partition and reaffirmed their determination to ensure free access and the continuation of a free and viable Berlin.

On 16 October 1963, Adenauer resigned and was succeeded by former Finance Minister Ludwig Erhard, who is generally credited with stimulating the FRG's extraordinary postwar economic development—the so-called economic miracle. Kurt George Kiesinger of the CDU formed a new coalition government on 17 November 1966 with Willy Brandt, leader of the Social Democratic Party, as a vice-chancellor. Three years later, Brandt became chancellor, and the CDU became an opposition party for the first time. One of Brandt's boldest steps was the development of an "Eastern policy" (Ostpolitik), which sought improved relations with the Socialist bloc and resulted, initially, in the establishment of diplomatic ties with Romania and the former Yugoslavia. On 7 December 1970, the FRG signed a treaty with Poland reaffirming the existing western Polish boundary of the Oder and western Neisse rivers and establishing a pact of

friendship and cooperation between the two nations. That August, the FRG had concluded a nonaggression treaty with the former USSR; a ten-year economic agreement was signed on 19 May 1973. Throughout the late 1960s and early 1970s, tensions over the Berlin division in particular and between the two Germanys generally eased markedly, as did, in consequence, the intensity of pressures from both Allied and Soviet sides over the issue of reunification. In an effort to normalize inter-German relations, FRG Chancellor Willy Brandt and GDR Chairman Willi Stoph exchanged visits in March and May 1970, the first such meetings since the states were established. A basic treaty between the two Germanys was reached on 21 December 1972 and ratified by the Bundestag on 17 May 1973; under the treaty, the FRG recognized the sovereignty and territorial integrity of the GDR, and the two nations agreed to cooperate culturally and economically. Two years later, the GDR and FRG agreed on the establishment of permanent representative missions in each others' capitals. Relations with Czechoslovakia were normalized by a treaty initialed 20 June 1973. The early 1970s brought an upsurge of terrorism on German soil, including the killing by Palestinians of Israeli athletes at the 1972 Summer Olympics in Munich. The terrorist wave, which also enlisted a number of German radicals, continued into the mid-1970s but declined thereafter.

Brandt remained chancellor until 6 May 1974, when he resigned after his personal aide, Günter Guillaume, was arrested as a spy for the GDR. Helmut Schmidt, Brandt's finance minister, was elected chancellor by the Bundestag on 16 May. Under Schmidt's pragmatic leadership, the FRG continued its efforts to normalize relations with Eastern Europe, while also emphasizing economic and political cooperation with its West European allies and with the United States. Schmidt remained chancellor until the fall of 1982, when his governing coalition collapsed in a political party dispute. General elections in March 1983 resulted in a victory for the CDU, whose leader, Helmut Kohl, retained the chancellorship he had assumed on an interim basis the previous October. In January 1987 elections, Kohl was again returned to power, as the CDU and its coalition allies won 54% of the seats in the Bundestag.

The exodus of East Germans through Hungary in the summer of 1989 as well as mass demonstrations in several East German cities, especially Leipzig, led to the collapse of the German Democratic Republic in the fall of 1989. Chancellor Kohl outlined a 10-point plan for peaceful reunification, including continued membership in NATO and free elections in March 1990. Following these elections, the two Germanys peacefully evolved into a single state. Four-power control ended in 1991 and, by the end of 1994, all former Soviet forces left the country, although British, French, and American forces remained for an interim period. Berlin became the new capital of Germany, although the shift from Bonn to Berlin took place over several years.

Unification has been accompanied by disillusionment and dissatisfaction with politics and the economy. A falling GDP and rising unemployment have raised concerns that the costs of unification were underestimated. By 1997, the German government had given more than \$600 billion to eastern Germany through business subsidies, special tax breaks, and support payment for individuals, while private companies invested \$500 million more. Even so, the eastern German economy was fundamentally bankrupt with unemployment at about 20%. Some analysts predict that convergence of the two economies will not be complete for another 10 to 20 years. In the meantime, the financial drain imposed on Bonn by the east threatened to imperil Germany's other convergence project, European economic unification. However, Germany and 11 other EU countries introduced a common European currency, the euro, in January 2002.

By October 1996, Chancellor Helmut Kohl had been in office for 14 years, becoming the longest-serving postwar German chancellor. In 1998, German voters decided it was time for a change. In the September parliamentary elections, Kohl's CDU (Christian Democratic) coalition was defeated by the SPD, and Gerhard Schröder became the first Social Democrat in 18 years to serve as Germany's chancellor. The following month, Schröder formed a center-left coalition with the Green Party. The new coalition inaugurated "Future Program 2000" to tackle the country's economic woes and in June 1999 pushed through the most extensive reform package in German history, which included major cuts in state spending as well as tax cuts. In April 1999, the German government was transferred from Bonn back to its prewar seat in Berlin, where the Bundestag moved into the renovated (and renamed) building formerly known as the Reichstag.

In July 1999 Johannes Rau became the first Social Democrat to be elected president of Germany in 30 years. However, continuing dissatisfaction with the nation's budget deficit and other problems resulted in a disappointing showing for the Social Democrats in local elections in September 1999.

In July 2000 government negotiators reached an agreement on the payment of compensation to persons subjected to forced and slave labor under the Nazi regime. A total of dm10 billion was to be paid out under the auspices of a specially created foundation. Official figures showed that racist attacks increased by 40% in 2000, a worrying trend.

In June 2001, the government and representatives from the nuclear industry signed an agreement to phase out nuclear energy over the next 20 years.

Following the 11 September 2001 terrorist attacks on New York and Washington, D.C., Germany agreed to deploy 4,000 troops to the US-led campaign in Afghanistan directed to oust the Taliban regime and al-Qaeda forces. It was Germany's largest deployment outside Europe since World War II, and in November, Schröder survived a parliamentary confidence vote following his decision to deploy the troops.

Parliamentary elections were held on 22 September 2002. Schröder, unable to campaign on a strong economy, staked out a foreign policy position that ran counter to that of the United States. Throughout 2002, the United States and UK were committing troops to the Persian Gulf region, and, in the event that Iraq would not disarm itself of any weapons of mass destruction it might possess, it was evident that the United States and UK might use those troops to force a regime change in Iraq. Schröder announced Germany unconditionally would not support a war in Iraq, and that Germany was in favor of a peaceful settlement to the conflict. Edmund Stoiber of the CDU was Schröder's opponent in the September elections, and the race between them was exceedingly close. Stoiber took a more nuanced position on the question of Iraq, and accused Schröder of damaging German-American relations. Stoiber was more popular with voters on matters of fighting unemployment (9.8% nationwide), and improving a sluggish economy. The SPD and CDU/CSU each won 38.5% of the vote, but the SPD emerged with 251 to 248 seats in the Bundestag (due to a peculiarity in the German voting system which awards extra seats to a party if it wins more constituency seats than it is entitled to under the party vote), and in coalition with the 55 seats won by the Green Party, formed a government with Schröder remaining chancellor.

The UN Security Council unanimously passed Resolution 1441 on 8 November 2002, calling upon Iraq to disarm itself of chemical, biological, and nuclear weapons or weapons capabilities, to allow the immediate return of UN and International Atomic Energy Agency (IAEA) weapons inspectors, and to comply with all UN resolutions regarding the country since the end of the Gulf War in 1991. The United States and UK indicated that if Iraq would not comply with the resolution,

“serious consequences” might result, meaning military action. The other three permanent members of the Security Council, France, Russia, and China, expressed their reservations with that position. Germany became a two-year (non-veto bearing) member of the Security Council in January 2003, and aligned itself with France, the most vocal opponent of war. The United States and UK abandoned diplomatic efforts at conflict resolution in March, and on 19 March, the coalition went to war in Iraq. Once coalition forces defeated Iraq and plans for reconstruction of the country were being discussed in April, Germany stressed the need for a strong role to be played by the UN in a post-war Iraq.

### 13 GOVERNMENT

The federal government exercises complete sovereignty. On 3 October 1990, the Federal Republic of Germany and the German Democratic Republic were unified in accordance with Article 23 of the Basic Law (Grundgesetz) of 23 May 1949, under which the FRG is governed and which serves as a constitution. It may be amended by a two-thirds vote of the legislature.

The bicameral legislature (the federal parliament) consists of a federal council (Bundesrat) and a federal diet (Bundestag). Members of the Bundestag are elected for four-year terms by universal, free, and secret ballot, and may be reelected; voters and candidates must be at least 18 years of age. The Bundestag had 497 voting deputies in 1987; 22 nonvoting deputies represented West Berlin. Following unification, Bundestag membership was raised to 662 deputies; as of 2003 it stood at 603. The Bundesrat, which has absolute veto power over legislation affecting the provinces (Länder), consists of 69 representatives appointed by the provincial governments according to the population of each province. Disagreements between the two chambers are handled by a conciliating committee.

The chancellor, the leader of the executive branch, is elected by a majority of the Bundestag and serves until a new Bundestag is elected or until a majority vote dismisses him. The chancellor determines and is responsible for policy, and selects the ministers who head the various administrative departments. The president, who is chief of state, performs the largely ceremonial functions of proposing the chancellor to the Bundestag, promulgating laws, formally appointing and dismissing judges and federal civil servants, and receiving foreign ambassadors. The president is elected for a five-year term by a federal convention composed of members of the Bundestag and an equal number of delegates elected by the provincial legislatures.

### 14 POLITICAL PARTIES

The “five percent clause,” under which parties represented in the Bundestag must obtain at least five percent of the total votes cast by the electorate, has prevented the development of parliamentary splinter groups. Only three parties gained representation in the Bundestag following the elections of September 1965. The Christian Democratic Union (Christlich-Demokratische Union—CDU) and its Bavarian affiliate, the Christian Social Union (Christlich-Soziale Union—CSU), with 245 seats, remained the strongest group, as it had been since the first Bundestag was elected in 1949. The Social Democratic Party (Sozialdemokratische Partei Deutschlands—SPD) increased its seats to 202 and remained the major opposition party. The Free Democratic Party (Freie Demokratische Partei—FDP), winning 49 seats, joined with the CDU and the CSU to form the “small coalition” government of Chancellor Ludwig Erhard. The coalition government was dissolved in October 1966, following a budgetary disagreement between the CDU/CSU and the FDP. In November 1966, the CDU/CSU joined with the SPD to form a new coalition government, but following the general elections of September 1969, the SPD and FDP formed a coalition government with a combined strength of 254 seats. The elections

of November 1972 resulted in a coalition composed of the SPD’s 230 seats and the FDP’s 42, over the CDU/CSU’s 224 seats. Following the resignation of SPD leader Willy Brandt, Helmut Schmidt (SPD) was elected chancellor by the Bundestag in May 1974 by a 267–255 vote. The SPD/FDP coalition retained its majorities in the elections of 1976 (SPD 214, FDP 39) and 1980 (SPD 218, FDP 53).

In the general election of 25 January 1987, the results were as follows: CDU/CSU, 44.3% (223 seats); FDP, 9.1% (46 seats); SPD, 37% (186 seats); and the Greens, 8.3% (42 seats). The first all-Germany elections were held 2 December 1990. The results were as follows: CDU/CSU, 43.8% (319 seats); SPD, 33.5% (239 seats); FDP, 11.0% (79 seats); and Greens, 1.2% (8). The Party of Democratic Socialism (PDS), successor to the SED (Communist party), won 2.4% of the vote and 17 seats. East German parties were allowed to win seats if they received at least 5% of the vote in East Germany. After the breakup of the coalition in 1982, however, the CDU/CSU swept to victory in the voting of March 1983, winning 244 seats and 48.8% of the vote, compared with 226 seats (44.5%) in 1980 and 243 seats (48.6%) in 1976. The swing party, the FDP, took 34 seats (6.9%) of the vote and joined the CDU/CSU in a coalition behind Chancellor Helmut Kohl. The SPD polled 38.2% (down from 42.9% in 1980) and captured 193 seats, for a drop of 25.

The CDU and CSU emphasize Christian precepts but are not denominational parties. They favor free enterprise and are supported by small business, professional groups, farmers, and Christian-oriented labor unions. In foreign policy, the CDU/CSU alliance supports European integration and the strengthening of NATO.

The SPD is the oldest and best organized of all German parties. In recent decades it has modified its traditional Marxist program and made an appeal not only to industrial workers but also to farmers, youth, professional people, and the petty bourgeoisie. Its revised Godesberg Program (1959) envisages a mixed economy, support for European integration and NATO, public ownership of key industries, a strong defense force, and recognition of religious values.

The FDP is a more heterogeneous organization, consisting of both classical liberals and strongly nationalistic groups. The party is supported mainly by business interests and Protestant groups. It rejects socialism or state capitalism in principle. The Greens (Die Grünen) constitute a coalition of environmentalists and antinuclear activists; in 1983, they became the first left-wing opposition party to gain a parliamentary foothold since the Communists won 15 seats in 1949. In 1990, in cooperation with Alliance 90, a loose left-wing coalition, the Greens were able to clear the 5% hurdle and win Bundestag seats.

The October 1994 elections saw a weakening of the Free Democratic and Christian Democratic coalition and a strengthening of the Social Democrats and the Greens. The Christian Democrats won 41.5% of the vote and the Free Democrats 6.9%. This gave the governing coalition 341 seats in parliament and a majority of only 10 seats as compared to its previous 134-seat edge. The combined opposition alliance took 48.1% of the vote (331 seats): the Social Democrats took 36.4%; the Greens, 7.3%; and the former Communists in eastern Germany (now called the Party of Democratic Socialism), 4.4%.

Kohl’s CDU-CSU coalition was weakened further in the September 1998 parliamentary elections, winning only 245 seats (35.1%), compared with 298 for the SDP (40.9%). Seats won by other parties were as follows: Greens, 47; Free Democrats, 44; and Party of Democratic Socialism, 35. Following the election, Germany’s new chancellor Gerhard Schröder, formed a center-left coalition government with the Green Party.

Elections held in September 2002 saw both the SPD and the CDU-CSU coalition each win 38.5% of the vote; however, the SPD came away with 251 seats to 248 for the CDU-CSU. The

SPD renewed its a coalition with the Greens, who took 8.5% of the vote and 55 seats, and Schröder remained chancellor. The Free Democrats took 7.4% of the vote and 47 seats, and the PDS won 4.3% of the vote and held 2 seats in the Bundestag.

## 15 LOCAL GOVERNMENT

The Basic Law guarantees local self-government, and the states (Länder) are granted all powers not specifically reserved to the federal government. The Federal Republic consists of 16 Länder: Baden-Württemberg, Bavaria, Berlin, Brandenburg, Bremen, Hamburg, Hessen, Mecklenburg-Vorpommern, Niedersachsen, Nordrhein-Westfalen, Rheinland-Pfalz, Saarland, Sachsen, Sachsen-Anhalt, Schleswig-Holstein, and Thuringen.

Länder have their own ministerial governments and legislatures. They have primary responsibility for the maintenance of law and order; jurisdiction over their own finances, taxes, and administration; and supreme authority in education and other cultural activities. Through the Bundesrat, the Länder have considerable influence in federal legislation.

Communes (Gemeinden) are the basic units of local government, apart from the municipalities, and have the right to regulate such local matters as those involving schools, building, cultural affairs, and welfare. Halfway between the Länder and the communes are the counties (Landkreise), which have autonomy in such matters as road building, transportation, and hospitals. They are administered by a Landrat, the chief official, and a Kreistag (country legislature).

## 16 JUDICIAL SYSTEM

Cases of the first instance are tried by local or Landkreis courts and the superior courts in each of the Länder. The Federal Court of Justice in Karlsruhe, the court of last resort in regular civil and criminal cases, consists of members appointed by a committee that includes federal and Land ministers and several Bundestag members. A court of appeal and the several Land and Landkreis courts are subordinate to the Karlsruhe tribunal. Special courts handle administrative, labor, financial, and social welfare matters. The Federal Constitutional Court, the highest court in the land, has competence to decide problems concerning the Basic Law and to test the constitutionality of laws. The court has 16 members: one 8-member panel elected by a committee of the Bundestag, the other by the Bundesrat.

The judiciary is independent of the legislative and judicial branches and remains free from interference or intimidation. The Basic Law provides for the rights to a fair trial and prohibits arbitrary interference with privacy, family, home and correspondence. The government authorities generally respect these prohibitions.

## 17 ARMED FORCES

The unification of Germany in 1991 brought the amalgamation of the People's Army of the German Democratic Republic and the Bundeswehr of the Federal Republic—on the Bundeswehr's terms, modified by political guidance. Essentially, West Germany abolished the East German ministry of defense and officer corps, but kept much of the GDR's Russian equipment and a few of its career officers and noncommissioned specialists. The Bundeswehr occupied East German military installations and found many of them beyond repair for training and suitable housing. The Bundeswehr moved eastward with all deliberate speed, especially since six Russian divisions and a tactical air force still remained in German installations. (With dependents these dispossessed Russians numbered almost 500,000.) Meanwhile, Germany's NATO allies still maintained an integrated ground and air field force of almost 250,000 troops in western Germany, although this force shrank with the departure of the Canadian and Belgian forces and the reduction of the American and British contingents in the 1990s.

The German active armed forces in 2002 numbered 332,800, supported by 390,300 reserves. Army personnel number 203,200 including 4,600 women. The German army has large amounts of equipment including 2,490 main battle tanks. The Germans have abundant air defense weapons, helicopters, engineering equipment, and sophisticated antitank weapons.

The navy of 25,500 include 3,700 naval aviators and 1,000 women. It has 14 submarines, 14 major surface combat vessels, 25 patrol and coast combatants, and 23 mine warfare ships.

The German air force numbered 67,300 personnel in 2002, including 1,500 women. It is structured into the Air Force Command and Transport command. Equipment for the air force included 446 combat aircraft.

In 2002 Germany spent \$38.8 billion for defense, or 1.4% of GDP. It takes an active role in peacekeeping and UN missions abroad. Germany has troops in France and Poland, and trains with the United States military.

## 18 INTERNATIONAL COOPERATION

The FRG (along with the GDR) became a full member of the UN on 18 September 1973; it had previously belonged to all the non-regional specialized UN agencies. It is also an active participant in the Council of Europe, EU, ECE, NATO, and OECD, as well as a member of the Asian Development Bank and a permanent observer of the OAS. The country is a member of the WTO. In 1994 Germany acceded to the convention on the Law of the Sea, the first EC country to do so.

## 19 ECONOMY

Germany, with a GDP of over \$2 trillion, has the world's third-largest economy and the largest in Europe. Agriculture, forestry, and fishing accounted for only 1% of GDP in 2002, while industry, including construction, comprised 31%, and services 68%. Germany's unit of currency, the mark, is one of the strongest in the world.

In the western FRG, GNP increased at an annual average rate of 7% between 1950 and 1960 and 5.4% between 1960 and 1970. This rate slowed to 3.1% between 1970 and 1980 and 2.3% between 1980 and 1990. However, the unification of Germany in October 1990 proved a heavy economic burden on the west. In 1992, the former GDR Länder accounted for only 8% of GDP. Transfer payments and subsidies for the east resulted in a large public deficit. Alarmed at the potential for inflation, the Bundesbank pursued a tight monetary policy. This boosted the value of the mark and had a recessionary effect on the European economy. The unemployment rate in 1993 was 7.3% in the west, but 15.8% in the east because so many antiquated, inefficient enterprises were unable to compete in a market economy. These factors led to the recession of 1992–93 with growth in the GDP dropping to 1.1%. The economy recovered in 1994, posting a growth rate of 2.9%, but declined to 1.9% in 1995 and an estimated 1% in 1996.

Strong exports in 1997 were expected to bring the growth rate back to 3.5% with sustained growth projected at 4–4.5% for 1998–2000. Such hopes failed to materialize, as the real growth rate for 1998 was 2.7%. The costs of reunification saddled the country with \$300 billion in debt, forcing western Germans to pay a 7.5% "solidarity" surtax for reconstructing the eastern section. Even with the infusion of cash, the eastern sector was essentially bankrupt in the late 1990s with 25% unemployment and worker output at 50% of its western counterpart. However, high unemployment did not result in a drop in the hourly wage rate. High labor costs also plague the west where workers average a 38-hour work week and enjoy six weeks of vacation per year. To remain competitive, German companies are cutting staff and relocating manufacturing jobs to lower wage countries.

The coalition government of Social Democrats and Greens elected in 1998 pledged to combat Germany's economic

sluggishness through a reform program dubbed “Future Program 2000.” This program included budget cuts, tax reforms, and a major reform of the pension system. The government also tried to coordinate better labor-management cooperation in its effort to implement its reforms. Gerhard Schröder’s Social Democratic and Green coalition government was returned to power in 2002, and Schröder called on citizens to “renew Germany” by pulling together during difficult economic times. Germany, on the brink of recession, saw a drop in the government’s popularity in 2002, which was compensated by Schröder’s foreign policy position—popular with German voters—opposing the US-led war in Iraq that began on 19 March 2003. Schröder threatened to resign in 2003 if his reform package, called “Agenda 2010,” was not passed by 2004. This program included a relaxation of job protections, reductions in unemployment and health care benefits, and an easing of the rules on collective bargaining. Indeed, the Social Democrats’ traditional support from unions was compromised by the proposed reforms, including, as in France, pension reform: strikes broke out in Germany, France, Austria, and Italy in mid-2003 due to opposition to cuts in old-age benefits. Germany’s budget deficit was rising in 2003, totalling 3.6% of GDP, and thus exceeding the 3% of GDP limit established by the EU. GDP growth was forecast for just 0.4% in 2003 and 1.5% in 2004.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Germany’s gross domestic product (GDP) was estimated at \$2.184 trillion. The per capita GDP was estimated at \$26,600. The annual growth rate of GDP was estimated at 0.4%. The average inflation rate in 2002 was 1.3%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 1% of GDP, industry 31%, and services 68%.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$18,580. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 1%. Approximately 14% of household consumption was spent on food, 7% on fuel, 2% on health care, and 10% on education. The richest 10% of the population accounted for approximately 23.7% of household consumption and the poorest 10% approximately 3.3%.

## 21 LABOR

The labor force in 2001 numbered 41.9 million workers. Employment by sector was as follows: industry 33%, agriculture 3%, and services 64%. Official unemployment was at 9.8% in 2002.

The right to organize and to join trade unions is guaranteed by law. As of 2002, about 29% of the eligible labor force was unionized. In 1991, the western trade unions successfully expanded eastward, where they created western structures in the new states, totally dominating overall development so that no GDR trade union survived reunification. The German Trade Union Federation (DGB), the largest federation, represented 85% of unionized workers in 2002. Disputes concerning the interpretation of labor agreements are settled before special labor courts. Wages and working conditions in virtually all commercial and industrial establishments are governed by collective bargaining agreements between employers’ associations and trade unions.

Children under the age of 15 are generally prohibited from employment, and these child labor laws are strictly enforced. Although the average workweek ranges from 36 to 39 hours, the law allows a maximum workweek of 48 hours. Also mandated are a 25% premium for overtime; paid holidays and vacations (15 workdays annually, minimum, and 18 days for employees over 35 years of age); and a 10% premium for night work. However, under various collective bargaining agreements, most workers are entitled to an even greater wage premium for overtime work and even more vacation time than legally required (six weeks per year is typical). About 80% of German wage and salary earners are covered by a collective bargaining agreement, which partly explains the relatively high wages in the absence of a minimum wage law, and why working time and vacation provisions exceed legal requirements. Health and safety standards are stringently regulated.

## 22 AGRICULTURE

Although 34% of the total area of Germany is devoted to crop production, production falls far short of satisfying industrial and consumer demand. Agriculture accounted for only 1% of GDP in 2002. The total amount of arable land in 1999 came to 11,797,000 hectares (29,150,000 acres). In 1999, the average size of the 30,308 farms in the former GDR Länder was about 185 ha (450 acres), while in the old FRG the average size of its 401,000 farms was about 27 ha (67 acres).

Article 15 of the 1990 Treaty (for monetary, economic and social union) arranged for transitional price supports for GDR farmers until an integration within the EU agricultural market could occur. Before reunification, agriculture had engaged about 6.1% and 3% of the economically active populations of the former GDR and old FRG, respectively. Agriculture engaged 3% of Germany’s population in 2001. The former GDR Länder contribute significantly to German agricultural production. The chief crops in order of yield in 1999 were sugar beets, 27,587,000 tons; wheat, 19,684,000 tons; barley, 13,322,000 tons; and potatoes, 11,420,000 tons. Apples and pears as well as cherries and peaches are significant fruit crops. Viticulture is important in the southwest, and Germany is a renowned producer of wines for world consumption; 1,229,000 tons of wine were produced in 1999. Germany is the world’s third largest importer of agricultural products (after Japan and the United States), with nearly \$32.2 billion in 2001.

## 23 ANIMAL HUSBANDRY

The government regulates the marketing of livestock, meat, and some dairy products; it also controls the distribution of livestock for slaughter and meat. Livestock in 2001 included 14,568,000 head of cattle (including five million milk cows), and 25,767,000 hogs, 2,771,000 sheep, 491,000 horses, 108,000,000 chickens, and 9,100,000 turkeys. Milk production amounted to 28.9 million tons in 2000; cheese, 1,743,000 tons; and butter, 421,000 tons. Meat production in 2001 included 4.1 million tons of pork, 1.4 million tons of beef, 860,000 tons of poultry, and 46,000 tons of lamb, mutton, and goat. Some 887,000 tons of eggs were produced in 2001. Germany is the leading meat, milk, and honey producer of Europe.

## 24 FISHING

The importance of the fishing industry has declined in recent years. At the beginning of 2001, the German fishing fleet consisted of 2,315 vessels with 71,499 GRT. In 2001, there were 101 fishery companies employing 11,053 people. The total catch in 2000 amounted to 205,689 tons, of which 22,868 tons came from inland waters. The main fishing areas are the North Sea and the waters off Greenland. Overfishing is a serious environmental problem. The government subsidizes capacity reduction and

modernization measures. The fish varieties accounting for the greatest volume in 2000 were herring (13%), mackerel (12%), cod (8%), and sardines (7%). Imports of fish products totaled 1,212,792 tons in 2000 (valued at \$2.3 billion), while exports amounted to 499,572 tons (valued at \$1.1 billion). Imports accounted for 71% of the fish and seafood supplied in 2000. Norway and Denmark together supply 40% of Germany's fish and seafood imports.

## 25 FORESTRY

Total forest area amounted in 2000 to over 10.7 million hectares (26.5 million acres), about 31% of the total land area. Reforestation has resulted in a 6% increase in the forest area since the end of World War II (1939–45). Deciduous species (such as beech, oak, ash, maple, and alder) originally covered about two-thirds of the area, and conifers were only predominant in higher elevations. Today, hardwood trees comprise only one-third of the forests. Principal softwood species include silver fir, pine, spruce, and Douglas fir, which was introduced from the northwest United States late in the 19th century. The most thickly wooded of the federal Länder are Hessen and Rhineland-Pfalz. A total of 33,400,000 cu m of timber was cut in 2001. The harvest represented about 70% of Germany's annual rate of wood regrowth. Consumption of timber by the wood working industry is 39–42 million cu m (1.4–1.5 billion cu ft) per year. Total trade in forest products during 2000 included \$10.8 billion in imports and \$9.9 billion in exports. Output of paper and paperboard totaled 18.18 million tons in 2000, fifth highest after the United States, China, Japan, and Canada. High domestic labor costs compel Germany to import substantial quantities of value-added products such as veneers and panels.

## 26 MINING

Germany's minerals and metals industry, which included industrial processing, construction, and mining, contributed almost 1% to the GDP, which grew at 2.8% in 2000, the fastest rate since reunification. Germany, whose export-oriented economy was the largest in Europe, accounting for more than 25% of the EU's economy, was a major processing nation, relying on imports of raw materials for the metals processing industry and the manufacture of industrial mineral products; one-third of national output went to external markets. Germany was a leader in the mining equipment manufacturing sector, and was among the largest and most technologically advanced producers of iron, coal, and cement. Although the underground mining sector has steadily declined—mining production in 2000 was at 79% of its 1990 level—certain minerals remained important domestically and worldwide. In 2000, Germany was the world's largest lignite producer, the world's third-largest producer of potash, Western Europe's second-largest producer of kaolin, a major European producer of crude gypsum, and self-sufficient in feldspar and salt. The only metal mineral still mined in Germany was uranium.

The ongoing cleanup of uranium mining operations in the former German Democratic Republic (GDR) was viewed as Europe's biggest mine rehabilitation project—48 waste rock piles contained 311 million cu m of waste material, and 14 tailing ponds contained 160 million cu m of residues from uranium-ore-processing plants; work in 2000 focused on decommissioning facilities and immobilizing contaminated material. Except for the very large lignite and potash operations, most of the producing and processing facilities in operation were small. The restructuring and privatization of facilities in the former GDR continued, including of the mineral-resource industries. Production figures for 2000 were, in million tons: potash, 3.4; kaolin, 3.7; marketable gypsum and anhydrite, 4, down from 4.6 in 1999; feldspar, 0.45; industrial dolomite and limestone, 77.9, up from 64 in 1996; and marketable salt (evaporated, rock, and

other), 13.2, down from 15.9 in 1999. Kali und Salz AG, which operated seven mines in four potash districts, had 13% of the world potash market, 30% of the market for potassium sulfate, and a capacity to produce 3.5 million tons per year. In 2000, Germany also produced barite; bromine; chalk; clays (bentonite, ceramic, fire, fuller's earth, brick); diatomite; fluorspar; graphite; lime; quicklime; dead-burned dolomite; nitrogen; phosphate materials, including Thomas slag; mineral and natural pigments; pumice; dimension stone; quartz; quartzite; slate; building sand; gravel; terrazzo splits; foundry sand; industrial glass sand; talc; and steatite. In terms of overseas developments, Süd-Chemie AG was the largest bentonite producer in Europe. Between 140 and 160 small- to medium-sized clay mines were in operation; about one-half of the high-quality refractory and ceramic clays produced were from the Rhineland-Palatinate area. No iron ore was mined in 1999 and 2000; demand was met by imports of 47 million tons.

## 27 ENERGY AND POWER

Germany is the greatest consumer of electric power in Europe. In 2001, total installed capacity was 113.7 million kW. Total production of electric power in 2000 amounted to 536.2 billion kWh, of which 63% was produced in conventional thermal plants (mainly fueled by hard coal), less than 4% in hydroelectric plants, 30% in nuclear installations, and about 2% from other sources. Primary energy consumption in 1998 was from oil, 43.3%; coal, 22.1%; and natural gas, 21.4%; nuclear power accounted for nearly all the rest. In 1999, oil accounted for 41% of energy consumption. As of 2001, there were 19 nuclear plants, and Germany ranked fourth internationally in installed nuclear capacity. In the same year, the German government and its utility companies signed an agreement to gradually phase out nuclear power over the coming decades due to environmental concerns.

Proven natural gas reserves were estimated at 325 billion cu m (11.5 trillion cu ft) in 1999. About one-third of Germany's gas is produced domestically (226 million cu m/8 trillion cu ft in 1999), with the remainder coming from such major foreign suppliers as Russia, the Netherlands, and Norway. In 2000 production began at Germany's first offshore gas field in the North Sea. It is expected to produce 3.3 billion cu m (116 billion cu ft) of gas per day for 16 years. Production of crude oil amounted to 64,000 barrels per day in 2000, down from 71,290 in 1990. Local production is not sufficient to cover consumption, which totaled 2.8 million barrels per day in 2000.

Germany has extensive coal reserves (about 73.9 billion tons in 1996), and coal accounted for 23% of domestic energy consumption in 1999. Production of hard coal is being reduced due to high costs and a decline in the subsidies formerly provided to this industry. However, Germany remains the world's largest producer of brown coal, or lignite, accounting for about 20% of worldwide lignite production. The lignite industry, which is centered in the eastern part of the country, was drastically changed as a result of unification and the introduction of the strict environmental and safety laws of the pre-1991 FRG. Production fell from 308 million tons in 1991 to 178 million in 1999. Total coal production in 1999 was 226 million tons.

During the 1990s, more than 5,000 electricity-generating windmills were installed in Germany, mostly along the North Sea coast, and wind power is expected to supply 3.5% of electricity by 2010.

## 28 INDUSTRY

Germany is the world's third largest industrial power, behind the United States and Japan. The major industrial concentrations of western Germany are the Ruhr-Westphalia complex; the Upper Rhine Valley, Bremen and Hamburg, notable for shipbuilding; the southern region, with such cities as Munich and Augsburg; and



the central region, with such industrial cities as Salzgitter, Kassel, Hanover, and Brunswick. In the east, most of the leading industries are located in the Berlin region or in such cities as Dresden, Leipzig, Dessau, Halle, Cottbus, and Chemnitz.

The main industrial sectors in the former GDR were electrical engineering and electronics, chemicals, glass and ceramics. The optical and precision industries were important producers of export items. Following unification, wages in the east were allowed to reach levels far exceeding productivity. As a result, many factories closed and industrial production plunged by two-thirds before stabilizing.

German industry has been struggling with high labor costs, stiff international competition, and high business taxes. Large industrial concerns like Daimler-Benz are spinning off unprofitable companies, cutting staff, and looking for ways to boost productivity. Policies such as these have led to a loss of nearly 2 million industrial jobs since 1991. Other companies, like the electronics giant Siemens, are moving plants abroad in search for lower labor costs and to secure positions in developing economies like China and Thailand. In the first half of 1998, German companies invested over \$17 billion abroad.

In 2001, Germany produced 5,691,677 automobiles, a 3% increase over 2000. It also produced 178,938 heavy trucks in 2000. Despite the costs of restructuring the former GDR, Germany had some of the largest and most successful companies in the world in 2002, from automobiles to advanced electronics, chemicals, utilities, and leisure and sportswear. German industrial products are known for their high quality and reliability. Nevertheless, the global recession that began in 2001 negatively affected German industry, with 45,000 insolvencies in 2002, including Holzmann, the large construction company. The construction industry, which experienced a post-reunification boom in the early 1990s, experienced an 8% drop in orders at the beginning of 2002. Some analysts in 2002–03 predicted the poor global economy would force German industries to restructure and become more competitive.

## 29 SCIENCE AND TECHNOLOGY

The reunification of East and West Germany has created great opportunities for the entire population but has also placed great strains on the nation. Perhaps nowhere is this more evident than in science, engineering and technical education and vocational training. Germany maintains an excellent science and technology educational system and vocational training in many fields. About 140,000 science and engineering students graduated per year in the last years of the twentieth century. Still, the challenge of incorporating the former German Democratic Republic (GDR) into a complete and modern German nation is daunting. Public and university research facilities in the former East Germany are old and poorly maintained, and science and engineering students have been found to be poorly trained and equipped to work in more modern West German institutions and companies. It is believed that the German government will need to completely rebuild the science and technology infrastructure in the former GDR before it can compare with more modern German facilities.

In 1987–97 total research and development expenditures in Germany amounted to 2.4% of GDP; 2,831 scientists and engineers and 1,472 technicians per million people were engaged in research and development. In 1998, high-tech exports were valued at \$63.7 billion and accounted for 14% of manufactured exports. The German national science and technology budget is applied to many areas of science and technology, and leading fields include traditional areas of German strength, like chemical, automotive and telecommunications research and development. The current policy emphasis is on applying science and technology to enhance Germany's economic and competitive

standing while protecting the nation's health and the environment.

Germany supports national science and technology at many levels. There are independent laboratories, comprised of both the national laboratories and private research institutes like the Max Planck and Fraunhofer Societies. In addition, German industry supports many important types of research and development, and the German states, or *Länder*, provide still more resources for scientific research. The Ministry for Science and Technology (BMFT), an organization without parallel in the United States, both coordinates and sets priorities for the entire national science and technology program. Finally, Germany's participation in the European Union also has a significant science and technology component—Germany provides funding, scientists, and laboratories for broad European research and development.

Germany has numerous universities and colleges offering courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 47% of university enrollment. The Natural History Museum in Berlin (founded in 1889) has geological, paleontological, mineralogical, zoological, and botanical components. The country has numerous specialized learned societies concerned with agriculture and veterinary science, medicine, the natural sciences, and technology.

## 30 DOMESTIC TRADE

Wholesalers, retailers, mail-order houses, door-to-door salespersons, department stores, consumer cooperatives, and factory stores all engage in distribution. As of 2002, there were about 630 000 commercial enterprises in Germany, with over than 760 000 local units. Nearly 5 million people were employed in domestic trade, which has a yearly turnover of over one trillion euros.

Chain stores are common with the top ten German retail organizations accounting for almost 80% of total German retail turnover. Convenience shops are a fast growing market outlet in Germany.

The economy is generally described as a “social market economy.” The state continues to own some major sections of the economy and provides subsidies for the growth and development of some sectors. However, free enterprise and competition are encouraged. Privatization of public utilities has resulted in greater competition and lower prices. The economy as a whole is primarily export oriented, with nearly one-third of national product exported.

Usual business hours for retail stores are from 9 AM to 6:30 PM on weekdays and from 9 AM to 2 PM on Saturday. Wholesale houses and industrial plants usually have a half day (noon closing) on Saturday. Banks are open Monday–Friday from 8:30 AM to 1 PM and from 2:30 PM to 4 PM (5:30 PM on Thursday).

## 31 FOREIGN TRADE

Germany is one of the world's great trading nations. In some years—most recently, 1990—it has surpassed the US as the world's leading exporter. The volume of exports increased from DM8.4 billion in 1950 to DM671 billion in 1992, while the volume of imports increased from DM11.4 billion to DM637.5 billion. Manufactured products are the leading exports, accounting for 90% of the total.

Germany supplies a large portion of the world with automobiles and car parts (17.5%). Diverse machinery exports, including non-electrical and electrical parts, also account for a large percentage of the world's exports in those commodities. Most of Germany's exports stay in Europe. The top nine exports are as follows:

	% OF COUNTRY TOTAL
Automobiles	11.0
Electrical machinery	8.4
Motor vehicle parts and accessories	2.9
Aircraft	2.7
Telecommunications equipment	2.5
Polymers	2.4
Medicinal and pharmaceutical products	2.4
Iron and steel	2.5
Organic chemicals	2.4
Paper products	2.2

In 2000 Germany's imports were distributed among the following categories:

Consumer goods	14.4%
Food	5.9%
Fuels	8.5%
Industrial supplies	23.1%
Machinery	22.1%
Transportation	13.9%
Other	12.0%

Principal trading partners in 1998 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
France	62,776	47,871	14,905
US	56,388	41,792	14,596
UK	45,711	34,909	10,802
Italy	41,655	33,367	8,288
Netherlands	35,427	44,102	-8,675
Belgium	27,837	24,052	3,785
Austria	29,211	19,101	10,110
Switzerland	23,947	17,556	6,391
Spain	24,967	15,121	9,846
Japan	12,151	24,484	-12,333

### 32 BALANCE OF PAYMENTS

After experiencing deficits during 1979–81, the FRG's current accounts balance rebounded to a surplus of about DM9.9 billion in 1982 and then kept rising to DM76.5 billion in 1986, primarily because of falling prices for crude oil and other imports, combined with appreciation of the deutsche mark relative to other European currencies. By 1989, Germany's current account surplus was nearly 5% of GNP. With reunification, however, this changed immediately. Imports rushed in as former-GDR residents sought newly available consumer goods, and exports fell as goods and services were diverted to the east. As a result, Germany recorded current account deficits since 1991, created in part because of the substantial foreign borrowing undertaken to finance the cost of unification. Even so, large current account surpluses from the 1970s and 1980s helped Germany to maintain its position as the world's second-largest creditor with net foreign assets estimated at \$185 billion in 1995. From 1990 to 1996, however, Germany's share of world exports dropped from 12% to 9.8% due in large part to high labor costs which were making it hard for Germany to compete in the global economy. Germany in 2001 ranked second behind the US in numbers of both exports and imports, and ran a current account surplus.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Germany's exports was \$608 billion while imports totaled \$487.3 billion resulting in a trade surplus of \$120.7 billion.

The International Monetary Fund (IMF) reports that in 2001 Germany had exports of goods totaling \$570 billion and imports totaling \$481 billion. The services credit totaled \$88 billion and debit \$138 billion. The following table summarizes Germany's

balance of payments as reported by the IMF for 2001 in billions of US dollars.

<b>Current Account</b>	<b>2</b>
Balance on goods	89
Balance on services	-51
Balance on income	-11
Current transfers	-24
<b>Capital Account</b>	<b>-1</b>
<b>Financial Account</b>	<b>-26</b>
Direct investment abroad	-43
Direct investment in Germany	32
Portfolio investment assets	-115
Portfolio investment liabilities	114
Other investment assets	-87
Other investment liabilities	67
<b>Net Errors and Omissions</b>	<b>19</b>
<b>Reserves and Related Items</b>	<b>5</b>

### 33 BANKING AND SECURITIES

The central banking system of Germany consists of the German Federal Bank (Deutsche Bundesbank), currently located in Frankfurt am Main (but which is expected to move to Berlin, the capital), one bank for each of the Länder (Landeszentralbanken), and one in Berlin, which are the main offices for the Federal Bank. Although the Federal Bank is an independent institution, the federal government holds the bank's capital and appoints the presidents as well as the board of directors; the Central Bank Council acts as overseer. All German banks are subject to supervision by the German Federal Banking Supervisory Authority (Bundesaufsichtsamt für das Kreditwesen) in Berlin.

The Federal Bank is the sole bank of issue. Until the advent of the euro in 1999 it set interest and discount rates. These functions are now the domain of the European Central Bank (ECB). However, the Federal Bank maintains a leading role in domestic banking. The largest commercial banks are the Deutsche Bank, Dresdner Bank, and Commerzbank. In 1997 Germany had 232 commercial banks, including the "big three," 56 subsidiaries or branches of foreign banks, and 80 private banks. There are also 13 central giro institutions. In addition, there are 657 savings banks and 18 credit institutions with special functions, including the Kreditanstalt für Wiederaufbau (Reconstruction Loan Corporation), which is the channel for official aid to developing countries. In all, there were over 45,000 bank offices in 2002. The German financial system includes just under 2,700 small industrial and agricultural credit cooperatives and allied institutions, in addition to four central institutions; 33 private and public mortgage banks that obtain funds from the sale of bonds; the postal check and postal savings system; and 34 building societies. In April 2000, a proposed merger between two of the "big three", Deutsche Bank and Dresdner Bank, collapsed. The deal would have reduced operating costs since by relieving both banks of their branch networks.

After the Bundesbank just missed its target range for M3 growth for 1996 of 4% to 7%, it decided on a two-year target for monetary supply growth to cover the 1997-98 period leading up to the planned hand-over of responsibility to the ECB on 1 January 1999.

In 1996 Moody's Investments Service capped an extremely poor year for Deutsche Bank by reducing its triple A rating to Aa1. This reflects the fact that elite banks are finding it harder to retain the triple A rating as banking becomes internationally more competitive. Deutsche Bank announced that it hoped to shed 1,300 employees through attrition by 2000. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$544.8 billion. In that same year, M2—an aggregate

equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$1,849.3 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.37%.

Under the constitution, the governments of the Länder regulate the operations of stock exchanges and produce exchanges. Eight stock exchanges operate in Berlin, Bremen, Düsseldorf, Frankfurt, Hamburg, Hannover, Munich, and Stuttgart. Germany has several other independent exchanges for agricultural items. While stock sales have remained fairly steady in recent years, the bond-debt total has risen dramatically. There are no restrictions on foreign investments in any securities quoted on the German stock exchanges. However, a foreign (or domestic) business investor that acquires more than 25% of the issued capital of a German quoted company must inform the company of this fact. The most notable recent banking legislation is the January 2002 elimination of the capital gains tax on holdings sold by one corporation to another.

### 34 INSURANCE

Spurred by demand in the new federal states, premium income grew 13% in 1991 to reach DM154 billion, or DM2,296 per capita. Over 80% of this revenue was earned by domestic companies. Private health insurance can be obtained to supplement or replace statutory health insurance. As of 1997, the German insurance industry was dominated by the giant Allianz company, followed by Röchversicherung and AMB. The sector is highly regulated and, despite the opening of the European Union (EU) market, it will be difficult for foreign companies to win the confidence of potential German customers.

### 35 PUBLIC FINANCE

The 1967 Law for the Promotion of Economic Stability and Growth requires the federal and state governments to orient their budgets to the main economic policy objectives of price stability, high employment, balanced foreign trade, and steady commensurate growth. The Financial Planning Council, formed in 1968, coordinates the federal government, states, municipalities, and the Bundesbank in setting public budgets. Income, corporate turnover, mineral oil, and trade taxes account for more than 80% of all tax revenue, with the federal government controlling just under half of it. Since the 1960s, social insurance provisions have accounted for the largest share of federal expenditures.

Germany's reunification in 1990 raised special problems with regard to economic and financial assimilation. The Unification Treaty provided that the new states should be incorporated in the financial system established by the Basic Law as much as possible from the onset. Therefore, since 1991, the new states have basically been subject to the same regulations with regard to budgetary management and tax distribution as the western states. A "German Unity Fund" was initiated to provide financial support for the new states (and their municipalities); it is jointly financed by the western states, with most of the money being raised in the capital market.

The US Central Intelligence Agency (CIA) estimates that in 2001 Germany's central government took in revenues of approximately \$802 billion and had expenditures of \$825 billion. Overall, the government registered a deficit of approximately \$23 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	802,000
Tax revenue	83.2%	667,095
Non-tax revenue	15.9%	127,157
Capital revenue	0.4%	3,512
Grants	0.5%	4,237
EXPENDITURES	100.0%	825,000
General public services	2.7%	22,162
Defense	3.9%	32,111
Public order and safety	0.3%	2,842
Education	0.5%	4,481
Health	18.9%	155,861
Social security	50.0%	412,765
Housing and community amenities	0.5%	3,842
Recreation, cultural, and religious affairs	0.1%	898
Economic affairs and services	7.4%	60,828
Other expenditures	8.6%	70,627
Interest payments	7.1%	58,584

### 36 TAXATION

In 2000, the German tax system underwent a major reform featuring a dramatic reduction in taxes on business (from a corporate income tax rate of 40% to 25%, and the elimination altogether of a 53% tax on investment profits), as well as a scheduled reduction in the top income tax rate to 42% by 2005 from 56% in the 1980's, and 53% in 2000. In 2003 the corporate income tax rate of 25% applied to both retained and distributed earnings. A one-year surcharge totaling 6% was added because of serious flood damage in 2002, bringing the effective rate to 26.5%. A non-resident corporation, whose headquarters and management are outside of Germany, does not have to pay the surcharge. The government intends to reduce the profits tax rate back to 25% for resident companies in 2004. Capital gains except for those derived from the sale of shares of both foreign and domestic corporations, which are tax-exempt, are taxed at the same rate as other income. Business activities are also subject to municipal trade taxes of 12% to 20.5%.

In 2003 the progressive schedule of income tax rates was in a process of transition. The 0%, tax-free base was scheduled to increase from €7,235 in 2002 to €7,427 in 2003 to €7,665 in 2005. The range of the other tax brackets was scheduled to fall from 19.9% to 48.5% in 2002, to 17% to 47% in 2003, and then to 15% to 42% in 2005. On the other hand, the threshold for the highest tax rate was scheduled to decrease from €55,008 in 2002 to €52,293 in 2003 to €52,152 in 2005. Rates and exemptions depend on the number of children, age, and marital status of taxpayer. 8% to 9% of income taxes due is a Church tax. Non-church goers, and members of the Orthodox or Anglican Churches are exempt from paying any Church tax. Other direct taxes include an inheritance and gift tax, a net worth tax, and a 2% real estate transfer tax.

The main indirect tax in Germany is a value-added tax (VAT) introduced in 1968 with a standard rate of 10%. By 2003, the standard rate had risen to 16%. A reduced rate of 7% applies to some basic foodstuffs, water supplies, medical care and dentistry, medical equipment for disabled persons, books, newspapers and periodicals, some shows, social housing, agricultural inputs, social services, and some transportation. Items exempt from the VAT include admissions to cultural events, building land, supplies for new buildings, TV licenses, telephones and faxes, basic medical and dental care, the use of sports facilities and some waste disposal services.

### 37 CUSTOMS AND DUTIES

Germany is a member of the European Union and thus has a common import customs tariff and complies with trade agreements put in place by the EU. Germany is also a contracting party to the Harmonized System Convention. In regard to trade with non-EU countries, most raw materials enter duty-free, while most manufactured goods are subject to varying rates between

5% and 8%. Germany levies a 15% value-added tax on industrial goods.

### 38 FOREIGN INVESTMENT

All foreign investment must be reported to the Bundesbank, but there are no restrictions on the repatriation of capital or profits. Until the 1998 deregulation of Deutsche Telekom, telecommunications remained closed to foreign investment. There is no special treatment for foreign investors. Incentives for investment in the former GDR deemed to be desirable include accelerated depreciation and cash investment grants and subsidies.

Although few formal barriers exist, high labor costs have discouraged foreign companies from setting up manufacturing plants in Germany. Nevertheless, across the 10-year period 1991 to 2001, total foreign direct investment (FDI) totaled \$393 billion, the third highest total in the world. Half of this came in 2000, when FDI inflow reached over \$195 billion. Annual FDI inflow had been \$12 billion in 1997, rising to \$24.5 billion in 1998, to \$54.7 billion in 1999. With the bursting of the dot.com bubble in 2001, FDI inflow to Germany fell to about \$32 billion in 2001 and was estimated at \$38.1 billion in 2002.

FDI outflows from Germany peaked at almost \$110 billion in 1999. FDI outflows were about \$52 billion in 2000 and \$42 billion in 2001.

### 39 ECONOMIC DEVELOPMENT

Outside of transportation, communications, and certain utilities, the government has remained on the sidelines of entrepreneurship. Beginning in 1998, and in line with EU regulations, the German government began deregulating these fields as well. It has, nevertheless, upheld its role as social arbiter and economic adviser. Germany considers itself a “social market economy.” Overall economic priorities are set by the federal and Land governments pursuant to the 1967 Stability and Growth Act, which demands stability of prices, a high level of employment, steady growth, and equilibrium in foreign trade. In addition to the state, the independent German Federal Bank (Bundesbank), trade unions, and employers’ associations bear responsibility for the nation’s economic health. With the advent of the euro in 1999, much of the Federal Bank’s authority in monetary matters was transferred to the ECB. In the international arena, Germany has acted as a leader of European economic integration.

Government price and currency policies have been stable and effective. Less successful have been wage-price policies, which have been unable to control a continued upward movement. Inflationary pressures have increased and combined with a general leveling off in productivity and growth. Attempts to neutralize competition by agreements between competitors and mergers are controlled by the Law Against Restraints of Competition (Cartel Act), passed in 1957 and strengthened since then. The law is administered by the Federal Cartel Office, located in Berlin.

Unemployment remained at an average 9% in the early 2000s; it was twice as high in eastern Germany as in western Germany. Although much effort has been expended to integrate the former East German economy with the West’s (infrastructure has improved drastically and a market economy has been introduced), progress in causing the two economies to converge slowed in the late 1990s and early 2000s. Germany’s economy was moribund in 2003, and Chancellor Schröder was chaperoning income tax cuts in an attempt to revive it. The tax cuts were to be financed by further spending cuts. In 2003, Germany had the lowest growth in the EU for the previous three years—on average 1%—and the economy was in a recession in late 2002 and early 2003. In 2002 and 2003, Germany surpassed the EU’s Stability and Growth Pact ceiling of a 3% deficit.

Schröder championed his “Agenda 2010” series of economic reforms, including an easing of job protection, a reduction in unemployment and health care benefits, and a relaxation of the rules on collective bargaining.

### 40 SOCIAL DEVELOPMENT

The social security system of the FRG remained in place following unification with the German Democratic Republic. However, the GDR system continued to apply on an interim basis within the former GDR territory. The two systems were merged effective 2 January 1992. The social insurance system provides for sickness and maternity, workers’ compensation, disability, unemployment, and old age; the program is financed by compulsory employee and employer contributions. Old age pensions begin at age 65 after five years of contribution. Worker’s medical coverage is comprehensive, including dental care. Unemployment coverage includes all workers, trainees, apprentices, and at home workers in varying degrees. The government funds a family allowance to parents with one or more children.

A program entitled “Women and Occupation” continued its application in 2002. It promotes the equality of women in the work force through training, grants, and projects. There is also an initiative to increase the number of females in information technology and in media careers. Equal pay for equal work is mandated by law but women continue to earn less than men. All military jobs, including combat roles, are now available to women. Although violence against women exists, the law and government provides protection. Victims of violence can receive police protection, legal help, shelter and counseling. Children’s rights are strongly protected.

Freedom of religion is guaranteed by the Basic Law in Germany, although there have been reports of some discrimination against minority religions. Extremist rightwing groups continue to commit violent acts against immigrants and Jews although the government is committed to preventing such acts. The Basic Law also provides for the freedom of association, assembly, and expression.

### 41 HEALTH

Health insurance in Germany is available to everyone. Benefits are broad and nationally uniform, with only minor variations among plans. They include free choice of doctors; unlimited physician visits; preventive checkups; total freedom from out-of-pocket payments for physician services; unlimited acute hospital care (with a nominal co-payment); prescription drug coverage (with a minimal co-payment); comprehensive dental benefits (with a 25–30% co-payment); vision and hearing exams, glasses, aids, prostheses, etc.; inpatient and psychiatric care (and outpatient psychiatric visits); monthly home care allowances; maternity benefits; disability payments; and rehabilitation and/or occupational therapy. As of 1999, total health care expenditure was estimated at 10.5% of GDP. Expenditures on health are among the highest in the world.

As of 1999, Germany immunized its children up to one year old against diphtheria, pertussis, and tetanus, 85%; and measles, 75%.

In 1998, there were approximately 287,000 active physicians, of whom 112,683 were in private practice, including 43,659 general practitioners. As of 1999, there were an estimated 3.5 physicians and 9.3 hospital beds per 1,000 people. In the same year there were about 2,260 hospitals in Germany, with about 572,000 beds. A gradual deinstitutionalization of people with chronic mental illness has taken place since 1975, with the number of hospital beds declining from 150,000 in the former West Germany in 1976 to a total of 69,000 in Germany as a whole as of 1995.

Average life expectancy was 77 years in 2000. Infant mortality was 4 per 1,000 live births in the same year. As of 2002, the birth rate was estimated at 8.9 per 1,000 live births and the overall death rate at 10.4 per 1,000 people. Contraceptive use is high. Nearly 75% of married women 15–49 used some form of birth control in 1992. The total fertility rate in 2000 was 1.4 children per woman throughout her childbearing years. The maternal mortality rate was low at 8 deaths per 100,000 live births as of 1998.

As of 1999, the number of people living with HIV/AIDS was estimated at 37,000 and deaths from AIDS that year were estimated at 600. HIV prevalence was 0.1 per 100 adults. At least 14,518 new cases of AIDS were reported in 1996.

Tobacco consumption has decreased significantly from 2.4 kg (5.3 lbs) in 1984 to 2.1 kg (4.6 lbs) a year per adult in 1995. The heart disease average in Germany was higher than the European average.

## 42 HOUSING

Nearly 2.8 million of the country's 12 million dwellings were destroyed or made uninhabitable as a result of World War II. In the early 1950s, there were 10 million dwellings available for 17 million households. From 1949 to 1972, 12.8 million housing units were built, a construction rate of over 500,000 a year; since then, new construction has slowed, averaging 357,000 new units annually during 1980–85.

According to 1998 statistics, there were about 36,547,800 dedicated residential buildings, 273,600 homes, and 502,500 other buildings with housing space. About 2,121,900 dwellings had been built since 1994. The average household had 2.2 persons. About 40.5% of dwellings were owner occupied. In 2001, there was a total of about 38,681,800 dwelling units with about 4.4 rooms per dwelling. In 2002, 259,885 new dwellings were built.

In western Germany, each individual has about 36 square meters of living space, significantly more than is found in the eastern states. About 95% of all flats have a bath and 75% have central heating. The housing stock in the new federated states is older than that in the west; two-thirds of its houses were built before World War II, and many have deteriorated and lack modern sanitary facilities.

## 43 EDUCATION

Most German schools are state run. Schools and kindergartens are the responsibility of the states, not of the federal government. Therefore, though the overall structure is basically the same, it is difficult for a pupil to transfer from one school to another. Attendance at all public schools and universities is free. As of 1999, public expenditure on education was estimated at 4.6% of GDP.

German teachers are civil servants. They are required to have a teaching degree and are paid according to a uniform salary scale. Children start school after their sixth birthday and are required to attend on a full-time basis for nine or ten years, depending on the state of residence. Part-time enrollment is then permitted.

After four years of primary or elementary school (Grundschule), students choose from three types of secondary school. The best pupils go to a gymnasium, which prepares them for the university matriculation examination, or abitur. Next is the realschule, a middle-level school leading to technical job training and middle-management employment. The lowest type is the hauptschule, or general school.

The original East German school system has been abolished. However, a network of correspondence courses has developed, geared for those who wish to continue their studies while working. In Germany, vocational training is the rule. On-the-job training in an authorized company is combined with instruction in a vocational school. Vocational training is concluded by taking

a theoretical and practical examination before a Board of the Chamber, and those who pass are given a certificate. This system of vocational training has clearly reduced youth unemployment.

In 1997 there were 3,859,490 pupils in 17,892 primary schools. Primary teachers numbered 224,517, and student-to-teacher ratio stood at 17 to 1. In the same year, 8,382,335 students and 542,383 teachers were in secondary schools. The pupil-teacher ratio at the primary level was 15 to 1 in 1999. In the same year, 87% of primary-school-age children were enrolled in school, while 88% of those eligible attended secondary school. At universities and other institutes of higher education, there were 274,963 teachers and 2,131,907 students enrolled.

## 44 LIBRARIES AND MUSEUMS

Germany had no national library until 1913, when the German Library (7.2 million volumes in 2002) in Leipzig brought together all literature of the German language under one roof. The library also contains 3.9 million volumes of works written in exile by German authors during the Nazi era. In 1990 a further consolidation of German libraries was completed with the establishment of the German Library in Frankfurt, which had 18 million volumes in 2002. Other prominent libraries are the Bavarian State Library in Munich (7.6 million books) and the Prussian Cultural Property State Library (10 million books) in Berlin. The Herzog-August Library in Wolfenbüttel (848,000 volumes) has archives of 12,000 handwritten medieval books. One of the most important collections of German literature is at the Central Library of German Classics in Weimar. As of 1997, Germany had 6,313 public libraries with 149 million volumes in total.

Germany has more than 4,500 state, municipal, association, private, residential, castle, palace, and church and cathedral treasures museums, which annually attract over 100 million visitors. Berlin has the Egyptian and Pergamon Museums, the Painting Gallery of Old Masters, and the National Gallery of Modern Art. The Germanic National Museum in Nürnberg has the largest collection on the history of German art and culture from antiquity to the 20th century. The German Museum in Munich is one of the most well-known natural sciences and technology museums in Europe. The Pinakothek Moderne, opened in 2003, houses a huge modern art collection in Munich. In addition, there are hundreds of smaller museums, ethnological and archaeological institutions, scientific collections, and art galleries.

## 45 MEDIA

Since reunification, postal services have been under the jurisdiction of the Deutsche Bundespost Postdienst and telecommunications under Deutsche Bundespost Telekom. Intensive capital investments since reunification have rapidly modernized and integrated most of the obsolete telephone network of the former GDR. In 2001, Germany had nearly 60 million main line telephones and 55 million mobile cellular phones. There were 11 regional broadcasting corporations, including Zweites Deutsches Fernsehen, which operates Channel Two nationally. In 1999 there were 77 AM, 1,621 FM, and 373 television stations. In 2000, Germany had 948 radios and 586 television sets for every 1,000 people. In 2001, there were about 336 personal computers for every 1,000 people and 200 Internet service providers serving 28.6 million users.

There are hundreds of newspapers, both daily and weekly, as well as a large number of periodicals. The German Press Agency, owned by German newspaper publishers and publishers' organizations, furnishes domestic and international news. There are hundreds of small press agencies and services.

Of the newspapers sold on the street, the *Bildzeitung* has the largest circulation (4.5 million a day as of 1995). The largest subscription paper is the *Westdeutsche Allgemeine Zeitung*

(621,000). Other influential daily national newspapers (with 2002 circulation rates) are: the *Frankfurter Allgemeine Zeitung* (Frankfurt, 471,000); the *Express* (Cologne, 468,800); the *Sächsische Zeitung* (Dresden, 416,800); *Rheinische Post* (Duesseldorf, 443,100); *Bild* (Hamburg, 5.7 million); and *Süddeutsche Zeitung* (Munich, 470,200). Major weeklies (with 1995 circulation) include *Die Zeit* (493,000), *Rheinischer Merkur* (111,150), and *Deutsches Allgemeines Sonntagsblatt* (89,200). Over 20,000 periodicals are published in Germany. The best-known internationally is the news magazine *Der Spiegel* (1,057,000), which is modeled after the American *Time* magazine.

The Basic Law provides for free press rights, and the government mostly supports these rights in practice, though propaganda of Nazi and certain other proscribed groups is illegal, as are statements endorsing Nazism.

## 46 ORGANIZATIONS

The Federation of German Industries, the Confederation of German Employers' Associations, the Federation of German Wholesale and Foreign Traders, and the Association of German Chambers of Commerce represent business in the FRG. There are about 14 regional associations of chambers of business and industry located in the largest cities; many maintain branch offices in smaller cities. The chambers are organized into provincial associations and are headed by the Permanent Conference of German Industry and Trade. The cooperative movement is well developed. Consumer cooperatives are represented in the International Cooperative Alliance by the Central Association of German Cooperatives, founded in 1949; it also represents credit cooperatives. The central association of agricultural cooperatives, the German Raiffeisen Society, is located in Wiesbaden. The Association of German Peasants is the largest society of farmers. There is also a Central Association of German Artisan Industries. The private Association of Consumers operates more than 150 local advisory centers. Professional societies and associations are numerous.

Civil action groups (Bürgerinitiativen) have proliferated in recent years. Deutscher Frauenring serves as an umbrella organization for national women's groups. The Red Cross is active. There are about 80 youth associations, most of which belong to the Federal Youth Ring. The scouting movement is highly active and political parties sponsor groups associated in the Ring of Political Youth. There are thousands of groups and associations for various hobbies, and sports, as well as for patriotic and religious purposes.

## 47 TOURISM, TRAVEL, AND RECREATION

Germany is famous for its beautiful scenery, particularly the Alps in the south and the river valleys of the Rhine, Main, and Danube; the landscape is dotted with castles and medieval villages. Theater, opera, and orchestral music abound in the major cities. The area that was formerly the GDR offers a number of Baltic beach resorts and scenic Rügen Island. Residents of the US, Canada, the UK, Mexico, South Africa, Australia, New Zealand, and many other countries need only a valid passport to enter Germany for a period of under three months. All border formalities for residents of other EC countries were abandoned with the lifting of trade barriers in 1993.

Facilities for camping, cycling, skiing, and mountaineering are abundant. Football (soccer) is the favorite sport; Germany hosted and won the World Cup competition in 1974. Tennis has become more popular since Boris Becker won the Wimbledon Championship in 1985. The Olympic Games were held in Berlin in 1936, during the Hitler years, and at Munich in 1972.

In 2000, about 18,983,000 foreign visitors arrived in Germany and receipts from tourism totaled \$17.8 billion. As of that year,

there were over 1.6 million hotel beds with a 35% occupancy rate.

In 2002 the US Department of State estimated the daily cost of staying in Frankfurt at \$255. Daily expenses were an estimated \$243 in Hamburg, \$268 in Berlin, and \$215 in Bonn.

## 48 FAMOUS GERMANS

The roster of famous Germans is long in most fields of endeavor. The name of Johann Gutenberg (1400?–1468?), who is generally regarded in the Western world as the inventor of movable precision-cast metal type, and therefore as the father of modern book printing, might well head the list of notable Germans. Martin Luther (1483–1546), founder of the Reformation, still exerts profound influence on German religion, society, music, and language.

The earliest major names in German literature were the poets Wolfram von Eschenbach (1170?–1220?), Gottfried von Strassburg (d.1210?), and Sebastian Brant (1457?–1521). Hans Sachs (1494–1576) wrote thousands of plays, poems, stories, and songs. Hans Jakob Christoffel von Grimmelshausen (1620?–76) created a famous picaresque novel, *Simplicissimus*. The flowering of German literature began with such renowned 18th-century poets and dramatists as Friedrich Gottlieb Klopstock (1724–1803), Gotthold Ephraim Lessing (1729–81), Christoph Martin Wieland (1733–1813), and Johann Gottfried von Herder (1744–1803), and culminated with the greatest German poet, Johann Wolfgang von Goethe (1749–1832), and the greatest German dramatist, Johann Christoph Friedrich von Schiller (1759–1805). Leaders of the Romantic movement included Jean Paul (Jean Paul Friedrich Richter, 1763–1825), August Wilhelm von Schlegel (1767–1845), Novalis (Friedrich von Hardenberg, 1772–1801), Ludwig Tieck (1773–1853), E. T. A. (Ernst Theodor Wilhelm—the A stood for Amadeus, the middle name of Mozart) Hoffmann (1776–1822), and Heinrich Wilhelm von Kleist (1777–1811). The brothers Jakob Grimm (1785–1863) and Wilhelm Grimm (1786–1859) are world-famous for their collections of folk tales and myths. Heinrich Heine (1797–1856), many of whose poems have become folksongs, is generally regarded as the greatest German poet after Goethe. Other significant poets are Friedrich Hölderlin (1770–1843), Friedrich Rückert (1788–1866), Eduard Mörike (1804–75), Stefan Georg (1868–1933), and Rainer Maria Rilke (1875–1926). Playwrights of distinction include Friedrich Hebbel (1813–63), Georg Büchner (1813–37), Georg Kaiser (1878–1945), Ernst Toller (1893–1939), and Bertolt Brecht (1898–1957). Two leading novelists of the 19th century were Gustav Freytag (1816–95) and Theodor Storm (1817–88). Germany's 20th-century novelists include Ernst Wiechert (1887–1950), Anna Seghers (Netty Reiling, 1900–1983), and Nobel Prize winners Gerhart Johann Robert Hauptmann (1862–1946), Thomas Mann (1875–1955), Nelly Sachs (1891–1970), and Heinrich Böll (1917–86). Other major writers of the 20th century include German-born Erich Maria Remarque (1898–1970), Günter Grass (b.1927) who won a Nobel Prize for literature in 1999, and Peter Handke (b.1942).

Leading filmmakers include G. W. (Georg Wilhelm) Pabst (b. Czechoslovakia, 1885–1967), F. W. (Friedrich Wilhelm Plumpe) Murnau (1888–1931), Fritz Lang (b.Austria, 1890–1976), German-born Ernst Lubitsch (1892–1947), Max Ophüls (Oppenheimer, 1902–57), Leni (Helene Bertha Amalie) Riefenstahl (b.1902), Volker Schlöndorff (b.1939), Werner Herzog (b.1942), and Rainer Werner Fassbinder (1946–82). Outstanding performers include Emil Jannings (Theodor Friedrich Emil Janenz, b.Switzerland, 1886–1950), Marlene Dietrich (1901–1992), Klaus Kinski (Claus Günther Nakszynski, 1926–91).

The two giants of German church music were Heinrich Schütz (1585–1672) and, preeminently, Johann Sebastian Bach (1685–1750). Significant composers of the 18th century were German-

born Georg Friedrich Handel (1685–1759), Carl Philipp Emanuel Bach (1714–88), and Christoph Willibald von Gluck (1714–87). The classical period and music in general were dominated by the titanic figure of Ludwig von Beethoven (1770–1827). Romanticism in music was ushered in by Carl Maria von Weber (1786–1826), among others. Outstanding composers of the 19th century were Felix Mendelssohn-Bartholdy (1809–47), Robert Schumann (1810–56), Richard Wagner (1813–83), and Johannes Brahms (1833–97). Major figures of the 20th century are Richard Strauss (1864–1949), Paul Hindemith (1895–1963), Carl Orff (1895–1982), German-born Kurt Weill (1900–50), Hans Werner Henze (b.1926), and Karlheinz Stockhausen (b.1928). Important symphonic conductors included Otto Klemperer (1885–1973), Wilhelm Furtwängler (1886–1954), Karl Böhm (1894–1981), and Eugen Jochum (1902–87). Among Germany's outstanding musical performers are singers Elisabeth Schwarzkopf (b.1915) and Dietrich Fischer-Dieskau (b.1925), and pianists Walter Gieseking (1895–1956) and Wilhelm Kempff (1895–91).

Veit Stoss (1440?–1533) was one of the greatest German sculptors and woodcarvers of the 15th century; another was Tilman Riemenschneider (1460?–1531). Outstanding painters, engravers, and makers of woodcuts were Martin Schongauer (1445?–91), Matthias Grünewald (1460?–1528?), Hans Holbein the Elder (1465?–1524), Lucas Cranach (1472–1553), Hans Holbein the Younger (1497?–1543), and above all, Albrecht Dürer (1471–1528). More recent artists of renown are the painters Emil Nolde (1867–1956), Franz Marc (1880–1916), Max Beckmann (1884–1950), the US-born Lyonel Feininger (1871–1956), Otto Dix (1891–1969), and Horst Antes (b.1936); the painter and cartoonist George Grosz (1893–1959); the sculptors Ernst Barlach (1870–1938) and Wilhelm Lehmbruck (1881–1919); the painter-etcher-sculptor Käthe Kollwitz (1867–1945); and the architects Walter Gropius (1883–1969), leader of the Bauhaus School of Design, Ludwig Mies van der Rohe (1886–1969), Erich Mendelsohn (1887–1953), Gottfried Böhm (b.1920), and Helmut Jahn (b.1940).

### Scholars and Leaders

German influence on Western thought can be traced back at least as far as the 13th century, to the great scholastic philosopher, naturalist, and theologian Albertus Magnus (Albert von Bollstädt, d.1280) and the mystic philosopher Meister Eckhart (1260?–1327?). Philipp Melancthon (Schwartzerd, 1497–1560) was a scholar and religious reformer. Gottfried Wilhelm von Leibniz (1646–1716) was an outstanding philosopher, theologian, mathematician, and natural scientist. The next two centuries were dominated by the ideas of Immanuel Kant (1724–1804), Moses Mendelssohn (1729–86), Johann Gottlieb Fichte (1762–1814), Friedrich Ernst Daniel Schleiermacher (1768–1834), Georg Wilhelm Friedrich Hegel (1770–1831), Friedrich Wilhelm Joseph von Schelling (1775–1854), Arthur Schopenhauer (1788–1860), Ludwig Andreas Feuerbach (1804–72), Karl Marx (1818–83), Friedrich Engels (1820–95), and Friedrich Wilhelm Nietzsche (1844–1900). In the 20th century, Oswald Spengler (1880–1936), Karl Jaspers (1883–1969), and Martin Heidegger (1889–1976) are highly regarded. One of the founders of modern Biblical scholarship was Julius Wellhausen (1844–1918).

Among the most famous German scientists are Johann Rudolf Glauber (1694–1768), Justus von Liebig (1803–73), Robert Wilhelm Bunsen (1811–99), and Nobel Prize winners Fritz Haber (1868–1934), Carl Bosch (1874–1940), Otto Hahn (1879–1968), Friedrich Bergius (1884–1949), Georg Wittig (1897–1987), Kurt Alder (1902–58), and Ernst Otto Fischer (b.1918) in chemistry; Karl Friedrich Gauss (1777–1855), Georg Simon Ohm (1787–1854), Hermann Ludwig Ferdinand von Helmholtz (1821–94), Heinrich Rudolf Hertz (1857–1894), and Nobel Prize winners Wilhelm Konrad Röntgen (1845–1923), Max Karl Ernst Ludwig

Planck (1858–1947), Albert Einstein (1879–1955), Gustav Ludwig Hertz (1887–1975), Werner Heisenberg (1901–76), Walter Bothe (1891–1957), Carl-Friedrich von Weizsäcker (b.1912), and Rudolf Mössbauer (b.1929) in physics; Rudolf Virchow (1821–1902), August von Wassermann (1866–1925), and Nobel Prize winners Robert Koch (1843–1910), Paul Ehrlich (1854–1915), Emil von Behring (1854–1917), Otto H. Warburg (1883–1970), and Konrad Lorenz (Austria, 1903–89) in physiology and medicine; earth scientists Alexander von Humboldt (1769–1859) and Karl Ernst Richter (1795–1863); and mathematician Georg Friedrich Bernhard Riemann (1826–66). Notable among German inventors and engineers are Gabriel Daniel Fahrenheit (1686–1736), developer of the thermometer; Gottlieb Daimler (1834–1900), Rudolf Diesel (b.Paris, 1858–1913), and Felix Wankel (1902–88), developers of the internal combustion engine; airship builder Count Ferdinand von Zeppelin (1838–1917); and rocketry pioneer Wernher von Braun (1912–77). Leading social scientists, in addition to Marx and Engels, were the historians Leopold von Ranke (1795–1886) and Theodor Mommsen (1817–1903), Nobel Prize winner in literature; the political economist Georg Friedrich List (1789–1846); the sociologists Georg Simmel (1858–1918) and Max Weber (1864–1920); and the German-born anthropologist Franz Boas (1858–1942). Johann Joachim Winckelmann (1717–68) founded the scientific study of classical art and archaeology. Heinrich Schliemann (1822–90) uncovered the remains of ancient Troy, Mycenae, and Tiryns; Wilhelm Dörpfeld (1853–1940) continued his work.

Outstanding figures in German political history are the Holy Roman emperors Otto I (the Great, 912–973), Frederick I (Barbarossa, 1123–90), Frederick II (1194–1250), and Spanish-born Charles V (1500–58); Frederick William (1620–88), the “great elector” of Brandenburg; his great-grandson Frederick II (the Great, 1712–86), regarded as the most brilliant soldier and statesman of his age; Otto Eduard Leopold von Bismarck (1815–98), the Prussian statesman who made German unity possible; Austrian-born Adolf Hitler (1889–1945), founder of Nazism and dictator of Germany (1933–45); and Konrad Adenauer (1876–1967), FRG chancellor (1948–63). Walter Ernst Karl Ulbricht (1893–1973), chairman of the Council of State (1960–73), and leader of the SED from 1950 to 1971, was the dominant political figure in the GDR until his death in 1973. Erich Honecker (1912–94) became first secretary of the SED in 1971 and was chairman of the Council of State and SED general secretary from 1976 until the FRG and GDR merged in 1990. Willi Stoph (1914–1999), a member of the Politburo since 1953, served as chairman of the Council of Ministers in 1964–73 and again from 1976 on. Willy Brandt (1913–1992), FRG chancellor (1969–74) won the Nobel Peace Prize for his policy of Ostpolitik. Other Nobel Peace Prize winners were Ludwig Quidde (1858–1941), Gustav Stresemann (1878–1929), and Carl von Ossietzky (1889–1938).

Baron Friedrich Wilhelm Ludolf Gerhard Augustin von Steuben (1730–94) was a general in the American Revolution. Karl von Clausewitz (1780–1831) is one of the great names connected with the science of war. Important military leaders were Hellmuth von Moltke (1800–1891); Gen. Paul von Hindenburg (1847–1934), who also served as president of the German Reich (1925–34); and Gen. Erwin Rommel (1891–1944).

### 49 DEPENDENCIES

Germany has no territories or colonies.

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# GREECE

Hellenic Republic  
*Elliniki Dhimokratia*

**CAPITAL:** Athens (Athínai)

**FLAG:** The national flag consists of nine equal horizontal stripes of royal blue alternating with white and a white cross on a royal-blue square canton.

**ANTHEM:** *Ethnikos Hymnos (National Hymn)*, beginning “Se gnorizo apo tin kopsi” (“I recognize you by the keenness of your sword”).

**MONETARY UNIT:** The euro replaced the drachma as official currency in 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year’s Day, 1 January; Epiphany, 6 January; Independence Day, 25 March; Labor Day, 1 May; Assumption, 15 August; National Day (anniversary of successful resistance to Italian attack in 1940), 28 October; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Shrove Monday, Good Friday, and Easter Monday.

**TIME:** 2 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Greece is the southernmost country in the Balkan Peninsula, with a total area of 131,940 sq km (50,942 sq mi); about a fifth of the area is composed of more than 1,400 islands in the Ionian and Aegean seas. Comparatively, the area occupied by Greece is slightly smaller than the state of Alabama. Continental Greece has a length of 940 km (584 mi) N–S and a width of 772 km (480 mi) E–W. It is bounded on the N by Macedonia and Bulgaria, on the NE by Turkey, on the E by the Aegean Sea, on the S by the Mediterranean Sea, on the SW and W by the Ionian Sea, and on the NW by Albania, with a total land boundary length of 1,228 km (763 mi) and a coastline of 13,676 km (8,498 mi). The capital city of Greece, Athens, is located along the country’s southern coast.

## <sup>2</sup>TOPOGRAPHY

About four-fifths of Greece is mountainous, including most of the islands. The most important range is the Pindus, which runs down the center of the peninsula from north to south at about 2,650 m (8,700 ft) in average elevation. Mt. Olympus (Ólimbos; 2,917 m/9,570 ft) is the highest peak and was the legendary home of the ancient gods.

Greece has four recognizable geographic regions. The Pindus range divides northern Greece into damp, mountainous, and isolated Epirus (Ipiros) in the west and the sunny, dry plains and lesser mountain ranges of the east. This eastern region comprises the plains of Thessaly (Thessalía) and the “new provinces” of Macedonia (Makedonia) and Thrace (Thraki)—“new” because they became part of Greece after the Balkan wars in 1912–13. Central Greece is the southeastern finger of the mainland that cradled the city-states of ancient Greece and comprises such classical provinces as Attica (Atikí), Boeotia (Voiotia), Doris, Phocis, and Locris. Southern Greece consists of the mountainous, four-fingered Peloponnesus (Pelopónnisos), separated from the mainland by the Gulf of Corinth (Korinthiakós Kólpos). Islands of the Aegean comprise the numerous Cyclades (Kikládes); the

Dodecanese (Dhodhekánisos), including Rhodes (Ródhos); and the two large islands of Crete (Kríti) and Euboea (Évvoia).

Greek rivers are not navigable. Many dry up in the summer and become rushing mountain torrents in the spring.

## <sup>3</sup>CLIMATE

The climate in southern Greece and on the islands is Mediterranean, with hot, dry summers and cool, wet winters. Winters are severe in the northern mountain regions. The summer heat is moderated by mountain and sea breezes. Precipitation is heaviest in the north and in the mountains. Average annual rainfall varies from 50 to 121 cm (20–48 in) in the north and from 38 to 81 cm (15–32 in) in the south. The mean temperature of Athens is 17°C (63°F), ranging from a low of 2°C (36°F) in the winter to a high of 37°C (99°F) in the summer.

## <sup>4</sup>FLORA AND FAUNA

Of the 4,992 species of higher plants recorded in Greece, about 742 are endemic to the country. Many pharmaceutical plants and other rare plants and flowers considered botanical treasures flourish in Greece. Vegetation varies according to altitude. From sea level to 460 m (1,500 ft), oranges, olives, dates, almonds, pomegranates, figs, grapes, tobacco, cotton, and rice abound. From 460 to 1,070 m (1,500–3,500 ft) are forests of oak, chestnut, and pine. Above 1,070 m (3,500 ft), beech and fir are most common.

Fauna are not plentiful, but bear, wildcat, jackal, fox, and chamois still exist in many sparsely populated areas. The wild goat (agrimi), which has disappeared from the rest of Europe, still lives in parts of Greece and on the island of Crete. Migratory and native birds abound and there are more than 250 species of marine life. Natural sponges are a main export item.

## <sup>5</sup>ENVIRONMENT

Among Greece’s principal environmental problems are industrial smog and automobile exhaust fumes in metropolitan Athens. Over half of all industry is located in the greater Athens area. From June to August 1982, the air pollution became so oppressive that the government closed down 87 industries,

ordered 19 others to cut production, and banned traffic from the city center. In July 1984, the smog again reached the danger point, and 73 factories were ordered to cut production and cars were banned from the city. In January 1988, the number of taxis in the center of Athens was halved, and private cars were banned from the city's three main thoroughfares. The smog regularly sends hundreds of Greeks to the hospital with respiratory and heart complaints. Greece is among the 50 nations with the world's highest levels of industrial carbon dioxide. In 1992, it ranked 37th, with emissions totaling 73.8 million metric tons, a per capita level of 7.25. In 1996, the total rose to 80.6 million metric tons. Greece's pollution problems are the result of almost complete disregard for environmental protection measures during the rapid industrial growth of the 1970s, compounded by unbalanced development and rapid, unregulated urban growth. Water pollution is a significant problem due to industrial pollutants, agricultural chemicals such as fertilizers and pesticides, and sewage. The Gulf of Saronikos is one of the most polluted areas because 50% of Greece's industrial facilities are located there. Greece has 54 cu km of renewable water resources with 81% used for farming and 3% used for industrial purposes. The nation's cities produce about 3.5 million tons of solid waste per year. Government policies have emphasized rational use of natural resources, balanced regional development, protection of the environment, and increased public participation in environmental matters. Four environmental and planning services were consolidated under the Ministry for Physical Planning, Housing, and the Environment.

In 2001, 13 of Greece's mammal species and 10 of its bird species were endangered. Six types of reptiles and 16 types of freshwater fish were also endangered. Of the nation's 4,000-plus plant species, 446 were threatened with extinction. Endangered species include the Mediterranean monk seal, the hawksbill turtle, Atlantic sturgeon, and the large copper butterfly.

## 6 POPULATION

The population of Greece in 2003 was estimated by the United Nations at 10,976,000, which placed it as number 72 in population among the 193 nations of the world. In that year approximately 17% of the population was over 65 years of age, with another 15% of the population under 15 years of age. There were 97 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.14%, with the projected population for the year 2015 at 10,944,000. The population density in 2002 was 83 per sq km (215 per sq mi).

It was estimated by the Population Reference Bureau that 60% of the population lived in urban areas in 2001. The capital city, Athens, had a population of 3,112,000 in that year. Another major urban area is Thessaloniki with a metropolitan population of 1,083,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.4%.

## 7 MIGRATION

Under League of Nations supervision in 1923, more than 1 million Greek residents of Asia Minor were repatriated, and some 800,000 Turks left Greece. During the German occupation (1941–44) and the civil war (1944–49), there was a general movement of people from the islands, the Peloponnesus, and the northern border regions into the urban areas, especially the Athens metropolitan area, including Piraiévs. Between 1955 and 1971 about 1,500,000 peasants left their farms—about 600,000 going to the cities, the rest abroad. According to the 1981 census, 813,490 Greeks had migrated since 1975 to urban areas, and 165,770 had moved to rural areas. The growth rate of the Athens, Thessaloniki, Pátrai, Iráklion, and Vólos metropolitan areas during 1971–81 far exceeded the population growth rate for the nation as a whole.

Many Greeks leave the country for economic reasons. In the years after World War II, the number of annual emigrants has varied from a high of 117,167 (in 1965) to a low of 20,330 (in 1975). The net outflow of Greek workers during the 1960s was 450,000; during the 1970s, however, there was a net inflow of 300,000. This mainly reflected declining need for foreign labor in western Europe.

In 1974, when the Greek military government collapsed, about 60,000 political refugees were living overseas; by the beginning of 1983, about half had been repatriated, the remainder being, for the most part, Communists who had fled to Soviet-bloc countries after the civil war of 1944–49.

In 1998, Greece received 2,953 applications for asylum, as compared to 4,367 in 1997. Most of them were from Iraq, Iran, and Turkey. Of those submitted in 1998, 10.6% were recognized as refugees or provided humanitarian protection. In 1999, the net migration rate was 4.04 migrants per 1,000 population.

## 8 ETHNIC GROUPS

About 98% of the population is Greek. Minority groups include Turks, Macedonian Slavs, Albanians, Armenians, Bulgarians, Jews, and Vlachs. Although the 1923 Treaty of Lausanne provided for an exchange of most Greek nationals in Turkey and Turkish nationals in Greece, the Turks of western Thrace (now numbering perhaps 100,000) were allowed to stay.

## 9 LANGUAGES

Modern Greek, the official language, is the first language of about 99% of the population. English, learned mostly outside the school system, and French are widely spoken. Turkish and other minority languages, such as Albanian, Pomakic, Kutzovlachian, and Armenian, also are spoken. The vernacular and the language of popular literature are called dimotiki (demotic). The official language—katharevousa—generally used by the state, the press, and universities, employs classical terms and forms. In 1976, the government began to upgrade the status of dimotiki in education and government. The liturgical language is akin to classical Greek.

## 10 RELIGIONS

Under the constitution, the Eastern Orthodox Church of Christ is the “prevailing” religion of Greece, but religious freedom is guaranteed. The church is self-governing under the ecumenical patriarch resident in Istanbul, Turkey, and is protected by the government, which pays the salaries of the Orthodox clergy. The government does not keep statistics on membership in religious groups; however, it is estimated that about 97% of the population are nominally members of the Eastern Orthodox Church. Official estimates place the number of Muslims at about 98,000 people, with most living in Thrace. Jehovah's Witnesses and the Roman Catholic Church each have about 50,000 members. There are about 30,000 Protestants, 12,000 Scientologists, and 5,000 Jews. There is a very small Baha'i community. The constitution prohibits proselytizing.

## 11 TRANSPORTATION

Greek transportation was completely reconstructed and greatly expanded after World War II. The length of roads in 2002 was 117,000 km (72,704 mi), of which 107,406 km (66,742 mi) were paved. Toll highways connect Athens with Lamía and Pátrai. In 2000 there were 4,279,524 motor vehicles, including 3,195,065 passenger cars and 1,084,459 trucks, buses, and taxis.

The Hellenic State Railways, a government organ, operates the railroads, which in 2002 had a total length of 2,571 km (1,597 mi). The agency also operates a network of subsidiary bus lines connecting major cities. The privately owned Hellenic Electric Railways operates a high-speed shuttle service between Piraiévs and Athens.



LOCATION: 34°48' 2" to 41°45' 1"n; 19°22' 41" to 29°38' 39"e. BOUNDARY LENGTHS: Macedonia, 228 kilometers (142 miles); Bulgaria, 494 kilometers (308 miles); Turkey, 206 kilometers (128 miles); Albania, 282 kilometers (176 miles); total coastline, 13,676 kilometers (8,496 miles). TERRITORIAL SEA LIMIT: 6 miles.

Principal ports are Elefsís, Thessaloniki, Vólos, Piraiévs, Iráklion, and Thíra. In 2002 the Greek merchant fleet had 802 ships (down from 2,893 in 1982) at a total GRT of 27,998,523. In addition, Greek shipowners had many other ships sailing under Cypriot, Lebanese, Liberian, Panamanian or other foreign registries. The Greek fleet was hard hit by the international shipping slump of the 1980s. The inland waterway system

consists of three coastal canals and three inland rivers, for a total of 80 navigable km (50 mi).

Greece had 79 airports in 2001, 66 of which had paved runways. Athens Main Airport connects the capital by regular flights to major cities in Europe, the Middle East, and North America. The new Athens airport at Spata opened March 2001. Olympic Airways, nationalized in 1975, operates a large internal domestic network as well as international flights. In 2001,

7,302,600 passengers were carried on domestic and international flights. Also during 2001, Greek aircraft performed 99 million freight ton-km (61.5 million freight-ton mi) of service.

## 12 HISTORY

Civilization in Greece first arose on Crete in the 3rd millennium BC, probably as a result of immigration from Asia Minor (now Turkey). The Minoan civilization (c.3000–c.1100 BC), named after the legendary King Minos (which may have been a title rather than a name), was centered in the capital of Knossos. Civilization on the mainland, known as Helladic (c.2700–c.1100 BC), probably originated from Crete. During the 2nd millennium BC, Greece was conquered by Indo-European invaders: first the Achaeans, then the Aeolians and Ionians, and finally the Dorians. The Greeks, who called themselves Hellenes after a tribe in Thessaly (they were called Greeks by the Romans after another tribe in northwestern Greece), adapted the native culture to their own peasant village traditions and developed the characteristic form of ancient Greek political organization, the city-state (polis). The resulting Mycenaean civilization (c.1600–c.1100 BC), named after the dominant city-state of Mycenae, constituted the latter period of the Helladic civilization. The Mycenaeans destroyed Knossos about 1400 BC and, according to legend, the city of Troy in Asia Minor about 1200 BC. The Minoan and Mycenaean civilizations both came to a relatively abrupt end about 1100 BC, possibly as a result of the Dorian invasion, but the foundations had already been laid for what was to become the basis of Western civilization. It was the Greeks who first tried democratic government; produced the world's first outstanding dramatists, poets, historians, philosophers, and orators; and made the first scientific study of medicine, zoology, botany, physics, geometry, and the social sciences.

In the 1st millennium BC, overpopulation forced the Greeks to emigrate and to colonize areas from Spain to Asia Minor. The Greeks derived their alphabet from the Phoenicians during the 8th century BC. By the 6th century BC, the two dominant city-states were Athens and Sparta. The 5th century BC, recognized as the golden age of Athenian culture, brought the defeat of the Persians by the Athenians in the Persian Wars (490–479 BC) and the defeat of Athens and its allies by Sparta and its allies in the Peloponnesian War (431–404 BC). The inability of Greeks to unite politically led to the annexation of their territories by Philip II of Macedon in 338 BC and by his son Alexander the Great. Through Alexander's ambition for world empire and his admiration of Greek learning, Greek civilization was spread to all his conquered lands. The death of Alexander in 323 BC, the breakup of his empire, and the lack of national feeling among the Greeks prepared the way for their conquest by Rome at the close of the Macedonian Wars in 146 BC. Greece was made a Roman province, but Athens remained a center of learning, and the Greek language and culture were widely influential in Rome, in the Egyptian city of Alexandria, and elsewhere. For this reason, the period between the death of Alexander and the beginning of the Roman Empire is known as the Hellenistic period.

When the Roman Empire was officially divided in AD 395, Greece, by this time Christianized, became part of the Eastern Roman Empire, which became known as the Byzantine Empire (so named from Byzantium, the former name of Constantinople, its capital), which lasted for more than a thousand years. During this period, Greek civilization continued to contribute to Byzantine art and culture.

The formal schism between Eastern Orthodox Christianity and Roman Catholicism came in 1054, when Pope Leo IX and Patriarch Michael Cerularius excommunicated each other. The continuity of Byzantine rule was broken by the fall of Constantinople in the Fourth Crusade in 1204. Under the Latin Empire of the East, which lasted until 1261, Greece was divided

into feudal fiefs, with the Duchy of Athens passing successively under French, Spanish, and Florentine rulers.

The Ottoman Turks, who conquered Constantinople in 1453 and the Greek peninsula by the end of the decade, gave the Greeks a large degree of local autonomy. Communal affairs were controlled by the Orthodox Church, and Greek merchants ranged throughout the world on their business ventures, but Greece itself was poverty-stricken. Following an unsuccessful attempt to overthrow the Turks in 1770—an uprising aided by Russia, as part of Catherine the Great's plan to replace Muslim with Orthodox Christian rule throughout the Near East—the Greeks, led by the archbishop of Patras, proclaimed a war of independence against the Turks on 25 March 1821. The revolution, which aroused much sympathy in Europe, succeeded only after Britain, France, and Russia decided to aid the Greeks in 1827. These three nations recognized Greek independence through the London Protocol of 1830, and the Ottomans accepted the terms later in the year.

The same three powers also found for Greece a king in the person of Otto I of Bavaria. But he was never popular and was overthrown in 1862, in favor of Prince William George of Denmark, who ruled as King George I until he was assassinated in 1913. During the second half of the 19th century and until after World War II, Greece gradually added islands and neighboring territories with Greek-speaking populations, including the Ionian Islands, ceded by the British in 1864; Thessaly, seized from Turkey in 1881; Macedonia, Crete, and some Aegean islands in 1913; and the Dodecanese Islands and Rhodes, ceded by Italy in 1947.

King Paul died on 6 March 1964 and was succeeded by his son Constantine. Meanwhile, a parliamentary crisis was brewing, as rightist and leftist elements struggled for control of the army, and the government sought to purge the military of political influence. On 21 April 1967, a successful coup d'état was staged by a right-wing military junta; leftists were rounded up, press censorship was imposed, and political liberties were suspended. After an unsuccessful counter coup on 13 December 1967, King Constantine and the royal family fled to exile in Italy. Lt. Gen. George Zoetakis was named regent to act for the king, and Col. George Papadopoulos was made premier. A constitutional reform was approved by 92% of the voters in a plebiscite held under martial law on 29 September 1968. Under the new constitution, individual rights were held to be subordinate to the interests of the state, many powers of the king and legislature were transferred to the ruling junta, and the army was granted extended powers as overseer of civil order. The constitution outlawed membership in the Communist Party. US military aid to Greece, suspended after the 1967 coup, was restored by President Richard M. Nixon in September 1970.

For Greece, the first half of the 20th century was a period of wars and rivalries with Turkey; of republican rule under the Cretan patriot Eleutherios Venizelos; of occupation by Italy and Germany during World War II (in World War I, Greece had been neutral for three years and had then sided with the Allies); and of a five-year civil war (1944–49) between the government and the Communist-supported National Liberation Front, in which US aid under the Truman Doctrine played a significant role in defeating the insurgency. In September 1946, the Greeks voted back to the throne the twice-exiled George II (grandson of George I), who was succeeded upon his death in April 1947 by his brother Paul I. A new constitution took effect in 1952, the same year Greece joined NATO. For much of the decade, Greece backed demands by Greek Cypriots for *enosis*, or the union of Cyprus with Greece, but in 1959, the Greek, Turkish, and Cypriot governments agreed on a formula for an independent Cyprus, which became a reality in 1960.

Following an abortive naval mutiny in 1973, Greece was declared a republic by the surviving junta. Papadopoulos became

president, only to be overthrown by a group of officers following the bloody repression of a student uprising. The complicity of the junta in a conspiracy by Greek army officers on Cyprus against the government of Archbishop Makarios precipitated the final fall from power of Greece's military rulers in July 1974, when the Turkish army intervened in Cyprus and overwhelmed the island's Greek contingent. Constantine Karamanlis, a former prime minister and moderate, returned from exile to form a civilian government that effectively ended eight years of dictatorial rule.

General elections were held on 17 November 1974, the first since 1964, and marked the recovery of democratic rule. In a referendum held on 8 December 1974, 69% of the electorate voted to end the monarchy and to declare Greece a parliamentary republic. On 7 June 1975, a democratic constitution was adopted by the new legislature, although 86 of the 300 members boycotted the session. Karamanlis became Greece's first prime minister under the new system, and on 19 June 1975, parliament elected Konstantinos Tsatsos as president.

Prime Minister Karamanlis, who had withdrawn Greece from NATO's military structure in 1974 to protest Turkey's invasion of Cyprus, resumed military cooperation with NATO in the fall of 1980 (a few months after he was elected president of Greece) and brought his nation into the EC effective 1 January 1981. With the victory of the Pan-Hellenic Socialist Movement (Panellinio Socialistikou Kinema—PASOK) in the elections of October 1981, Greece installed its first Socialist government. The new prime minister, Andreas Papandreou—the son of former Prime Minister George Papandreou and a man accused by rightists in 1967 of complicity in an abortive leftist military plot—had campaigned on a promise to take Greece out of the EC (although his government did not do so). In November 1982, he refused to allow Greek participation in NATO military exercises in the Aegean, which were then canceled. In January 1983, the government declared a general amnesty for the Communist exiles of the 1944–49 civil war.

In mid-1982, in an attempt to deal with the deepening economic crisis, the government created a ministry of national economy, which embraced industrial and commercial affairs. The proposed “radical socialization” of the economy, however, provoked widespread opposition, which limited it to the introduction of worker participation in supervisory councils; state control was imposed only on the pharmaceutical industry (in 1982), and of Greece's largest enterprises, only the Heracles Cement Co. was nationalized (in 1983). Relations with labor were strained as the government sought to balance worker demands that wages be indexed to inflation with the growing need for austerity; in late 1986, the government imposed a two-year wage freeze, which provoked widespread strikes and demonstrations.

In 1985, Prime Minister Papandreou unexpectedly withdrew his support for President Karamanlis's bid for a second five-year term and announced amendments to the constitution that would transfer powers from the president to the legislature and prime minister. Karamanlis resigned, and Papandreou proceeded with his proposed changes, calling an election in June and winning a mandate to follow through with them (parliament's approval was given in March 1986). Subsequently, however, the government began to lose power; the opposition made substantial gains in the 1986 local elections, and a 1987 scandal associated with Papandreou further weakened the government. In January 1988, Papandreou met with Turkish Premier Turgut Ozal in Switzerland; they agreed to work toward solving the problems between the two countries.

Two rounds of parliamentary elections were held in 1989; neither was conclusive. After the June vote, the center-conservative New Democracy (ND) party, with 146 of 300 seats, formed a government with left-wing parties and concentrated on investigating scandals of the Papandreou government, including

those of the former prime minister himself. That government resigned in the fall, and new elections were held in November. The ND and PASOK both improved their totals and an all-party coalition was formed to address economic reform. That government, however, also failed. In April 1990 elections, the ND emerged victorious to lead the government.

In the balloting of 10 October 1993, PASOK won 171 seats to 110 for the ND and Papandreou was again elected prime minister, despite repeated scandals of both personal and political nature. In 1995, parliament appointed Konstantinos Stephanopoulos president. Voters appeared dissatisfied with ND's economic reforms while PASOK won support for its hard-line foreign policy demanding that the former Yugoslav Republic of Macedonia change its name. Many Greeks believe the name of the newly independent state implies territorial designs on the northern Greek region, which once formed part of historic Macedonia. In 1995, Papandreou became ill and was not able to adequately perform his duties. In January 1996, PASOK named Costas Simitis prime minister. In June of that year, Papandreou died at 77, ending the tumultuous political career of postwar Greece's most important—and controversial—politician.

In 1996, Simitis, facing strong resistance to austerity measures from labor and farmers, called on the president to dissolve parliament and hold early elections. Simitis had vowed not to call for a dissolution, but faced with mounting opposition to his austerity measures—taken to prepare the Greek economy for European monetary union in 1999—felt he needed a reinforced mandate. The election, held on 22 September 1996, returned PASOK and Simitis to power, giving them, in fact, a commanding majority in parliament.

The next four years were highlighted by continued Greek-Turkish tension, and Simitis's push for Greek entry into the monetary union. Relations with Turkey reached a new low in early 1999 when Turkey's most-wanted man, Kurdish terrorist leader Abdullah Ocalan, was captured by the Turkish secret services in Nairobi, Kenya. Ocalan had sought refuge in the Greek embassy and was seized while en route to the airport, apparently on the way to an asylum-granting country in Africa. Ocalan's capture led to subsequent Turkish charges that the Greek state sponsored international terrorism.

The outbreak of the Kosovo war little over a month later also placed Greece in an awkward diplomatic position. Although the overwhelming majority of the Greek public opposed the war, the Simitis government maintained its ties to NATO and offered logistical—although not combat—support to its allies. Nevertheless, the popular anti-Western backlash remained for some months as evidenced by riots that accompanied President Bill Clinton's visit in November 1999.

Unexpectedly, relations with Turkey began a significant improvement in August 1999 following a devastating earthquake in Turkey that killed over 20,000 Turkish citizens. Greece was among the first countries to offer aid to its traditional foe. When a smaller earthquake struck Greece the following month, Turkey reciprocated the Greek gesture. In the aftermath of the tragedies, Greece and Turkey continued a dialogue that resulted in the signing of cooperation accords in the areas of commerce and the fight against terrorism. In addition, Greece's support of the decision of the December 1999 EU summit in Helsinki to place Turkey as a candidate for EU membership also helped to continue the thaw in Greece's relations with its eastern neighbor. When the EU in late 2002 announced Turkey would not be one of 10 new candidate countries invited to join the body as of 2004, Greece pressed the EU to set a date for the start of accession talks. Relations between the two countries have also warmed due to plans to build a natural gas pipeline connecting them. Following the September 2001 terrorist attacks on the United States, however, Greece asserted its need to enhance and reorganize its

defense forces, especially in Thrace and the Aegean islands, close to its border with Turkey.

Simitis's austerity measures also began to bear fruit as the country entered the euro zone on 1 January 2002. Greece's international standing received a boost with the decision of the International Olympic Committee to award the 2004 Summer Olympics to Greece. Economic and cultural achievements such as these along with the improvement in relations with Turkey may have proved decisive in giving PASOK the edge in the April 2000 elections.

Negotiations between the Greek and Turkish leaders in Cyprus were held in early 2003 to see if they could agree on a plan to unify the island prior to Cyprus signing an EU accession treaty on 16 April. The talks failed, and the internationally recognized Greek government of Cyprus signed the accession treaty. However, later that month, Turkish-Cypriot leader Rauf Denktaş opened the borders of northern Cyprus to Greeks, and by 15 May 2003, about 250,000 Greek Cypriots and 70,000 Turkish Cypriots—40% of the island's combined population—had visited each other's side.

Approximately 90% of Greece's population was opposed to the US-led war in Iraq that began on 19 March 2003. Prime Minister Costas Simitis indicated that by waging war, the United States and United Kingdom were undermining the EU. Yet he gave the coalition permission for use of Greece's airspace in launching strikes against Iraq.

### 13 GOVERNMENT

Before the 1967 coup, executive power was vested in the crown but was exercised by a Council of Ministers appointed by the king and headed by a premier. The 1975 constitution abolished the 146-year-old Greek monarchy and created the office of president as head of state. If a majority in parliament fails to agree on the selection of a president, the office is filled in a general election. The president, who is limited to two five-year terms, appoints the prime minister, who is head of government and requires the confidence of parliament to remain in power. (The constitution was amended in 1986 to reduce the power of the president, limiting his right to dissolve parliament on his own initiative and depriving him of the right to dismiss the prime minister, veto legislation, or proclaim a state of emergency; basically, these powers were transferred to parliament.) The prime minister selects a cabinet from among the members of parliament.

Legislative power is vested in a parliament (*Vouli*), a unicameral body of 300 deputies elected by direct, universal, secret ballot for maximum four-year terms. A proportional electoral system makes it possible for a party with a minority of the popular vote to have a parliamentary majority. In the 1974 elections, voting was made compulsory for all persons aged 21–70 residing within 200 km (124 mi) of their constituencies. Suffrage is now universal and compulsory at age 18.

### 14 POLITICAL PARTIES

Postwar political parties in Greece centered more on leaders than platforms. The Greek Rally, founded and led by Field Marshal Alexander Papagos, won control of the government in the 1951 elections. About 10% of the vote was received by the Union of the Democratic Left, a left-wing party founded in 1951 as a substitute for the Communist Party, outlawed since 1947. When Papagos died in October 1955, Constantine Karamanlis formed a new party called the National Radical Union, which won the elections of 1956, 1958, and 1961 and held power until 1963, when Karamanlis resigned and the newly formed Center Union, comprising a coalition of liberals and progressives and led by George Papandreou, subsequently won a narrow plurality, with Papandreou becoming prime minister. In elections held in February 1964, the Center Union won 174 out of 300 seats;

however, King Constantine dismissed Papandreou in July 1965, and Stephanos Stephanopoulos formed a new government. This government, too, was short-lived. Political conflict came to a head when Panayotis Kanellopoulos, leader of the National Radical Union, who had been appointed premier of a caretaker government, set new elections for 28 May 1967. On 21 April, however, a military coup resulted in the cancellation of elections and suppression of political parties, which lasted until 1974.

On 28 September 1974, following his return from exile, Karamanlis formed the New Democracy Party (*Nea Dimokratia*—ND), advocating a middle course between left and right and promoting closer ties with Western Europe. The Center Union–New Forces (EKND), renamed the Union of the Democratic Center (EDHK) in 1976, rallied liberal factions of the former Center Union and announced a line that generally paralleled ND policies. The EDHK disintegrated following the 1981 elections. Other groups to emerge, most of them led by former opponents of the junta, included the Pan-Hellenic Socialist Movement (*Panellinio Socialistiko Kinema*—PASOK), led by Andreas Papandreou; the United Left (UL), which brought together elements of the Union of the Democratic Left and the Communist Party to oppose the upcoming elections; and the National Democratic Union (NDU), which represented an amalgam of various elements, including some royalists and right-wing activists. Also in 1974, the Communist Party (*Kommounistiko Komma Ellados*—KKE) was made legal for the first time since 1947; the party later split into two factions, the pro-Soviet KKE-Exterior and the Eurocommunist wing, called the KKE-Interior. In May 1986, the KKE-Interior changed its name to the New Hellenic Left Party.

In the general elections held on 17 November 1974, the ND won an overwhelming majority in parliament, with the EKND forming the major opposition. The ND was again the winner in 1977, although its parliamentary majority dropped from 220 to 172. After parliament elected Karamanlis president in 1980, George Rallis succeeded him as prime minister. In the elections of 18 October 1981, Papandreou's PASOK won 48% of the popular vote and commanded a clear parliamentary majority. Although PASOK won again in the election of 2 June 1985, its share of the total votes cast fell to 45.8%.

In the elections of 10 October 1993, PASOK had about the same percentage (46.9%) and a majority of 171 seats. The ND followed with 110 seats and an offshoot party, Political Spring, had 10 seats. The Communists gained 9 places.

In the parliamentary elections of 22 September 1996, PASOK retained its majority, but lost nine seats. ND emerged with 108 seats; the KKE, 11; Coalition of the Left and Progress, 10; and the Democratic and Social Movement Parties, 9. The Political Spring lost all its seats in the election, gaining only 2.95% of the popular vote.

PASOK continued its dominance of the post-1974 era with yet another victory at the polls on 9 April 2000. In a close election PASOK won 158 seats (43.8% of the vote), ND earned 125 seats (42.7%), the KKE held steady at 11 (5.5%), while the Coalition of the Left and Progress saw its share of the seats drop to 6 (3.2%). The Democratic Social Movement failed to clear the 3% hurdle needed for representation and Political Spring once again failed to win any seats.

### 15 LOCAL GOVERNMENT

The 1975 constitution restored the large measure of local self-government initially provided for in the constitution of 1952 and reemphasized the principle of decentralization, although local units must depend on the central government for funding. Under the military regime of 1967–74, local units had been closely controlled by the central authorities.

Greece is divided into 13 regional governments (*periferiarchis*), which are subdivided into 51 prefectures or nomarchies (*nomoi*),

in addition to the autonomous administration of Mt. Áthos (Aghion Oros) in Macedonia. Each prefecture is governed by a nomarch who is nominally appointed by the minister of the interior. *Nomoi* are further divided into two or more provinces or *eparchies*, of which there were 147 in 2002. There are also 272 municipalities or *demoi* (cities of more than 10,000 inhabitants), administered by mayors; communes (with 300 to 10,000 inhabitants), each run by a president and a community council; and localities.

The rocky promontory of Mt. Áthos, southeast of Salonika, is occupied by 20 monasteries, of which 17 are Greek, one Russian, one Serbian, and one Bulgarian. Mt. Áthos is governed by a 4-member council and a 20-member assembly (1 representative from each monastery). The special status of Mt. Áthos was first formalized in the 1952 constitution.

## 16 JUDICIAL SYSTEM

The 1975 constitution designates the Supreme Court (*Areios Pagos*) as the highest court of appeal. It consists of both penal and civil sections. A Council of State does not hear cases but decides on administrative disputes, administrative violations of laws, and revision of disciplinary procedures affecting civil servants. The 1975 constitution also established a Special Supreme Tribunal as a final arbiter in disputes arising over general elections and referenda, in addition to exercising review of the constitutionality of laws. Other elements of the judicial system include justices of the peace, magistrates' courts, courts of first instance, courts of appeal, and various administrative courts. Judges of the Supreme Court, the courts of appeal, and the courts of first instance are appointed for life on the recommendation of the Ministry of Justice. The president has the constitutional right, with certain exceptions, to commute and reduce sentences.

The constitution provides for an independent judiciary.

## 17 ARMED FORCES

In 2002 active armed forces numbered 177,600 including 5,520 women and were supported by some 291,000 reserves. There were 114,000 in the army, 19,000 in the navy, and 33,000 in the air force. The Greek field army has a large and varied combined arms structure, but units are manned at three different levels of readiness. The 1,250 troops serving on Cyprus include 1 mechanized brigade. The navy had 8 submarines, 2 destroyers, 12 frigates, and 40 patrol and coastal combatants as well as 18 armed helicopters. The air force had 418 combat aircraft. The paramilitary consisted of 4,000 coast guards and customs officers. Greek military personnel provided support to UN and peacekeeping missions in seven regions around the world. Defense expenditures in 1999–00 were \$6.1 billion or 4.9% of GDP. The United States has one major naval base on Greek soil and several smaller installations.

## 18 INTERNATIONAL COOPERATION

Greece is a charter member of the UN, having joined on 25 October 1945, and participates in ECE and all the nonregional specialized agencies. Greece was admitted to NATO in 1951 but suspended its military participation (1974–80) because of the Cyprus conflict. It belongs to the Council of Europe and OECD and is a signatory of the Law of the Sea and a member of the WTO. Greece is also a permanent observer at the OAS. The country, which had been an associate member of the EU, became a full member as of 1 January 1981. In August 1987, Greece and Albania signed a pact ending the state of war that had existed between them since World War II (1939–45).

## 19 ECONOMY

The Greek economy suffers from a paucity of exploitable natural resources and a low level of industrial development relative to the rest of Western Europe. By 1992, it had fallen behind Portugal to

become the poorest EC (now EU) member. However, there is an unrecorded underground economy whose size is estimated at 30–50% of the official one. In 2000, agriculture (with forestry and fishing) generated about 9% of the GDP but employed about 20% of the labor force. Agricultural exports include tobacco, cotton, wheat, raisins, currants, fresh fruits, tomato products, olive oil, and olives. In 2000, industry and construction accounted for about 22% of the GDP and 21% of the labor force. Wholesale and retail trade and other services provided some 70% of the GDP.

Next to food processing, textile manufacturing used to be the most important industry, but chemicals and metals and machinery have outstripped it in recent years. Paper products has been a fast-growing industry since 1980. Greece has stimulated foreign investments in the development of its mineral resources by constitutionally providing guarantees for capital and profits. The government has encouraged tourism, which has developed into a major source of revenue. Greece continues to play a dominant role in the international shipping industry.

During the late 1950s and 1960s, the government took steps to reclaim land, develop new farms, increase credits and investments for agriculture, protect agricultural prices, and improve the agricultural product and utilize it to the best advantage; however, the country still depends on many imports to meet its food needs. Industrial output contributed substantially to the rapid increase in national income since 1960, and manufacturing and service industries were the fastest-growing sectors in the 1970s. In the 1980s, however, the economy retracted sharply because of the world recession and growth in real terms was sluggish. In the best year of the decade, 1988, GDP grew by 4.9%. In 1993, GDP dropped by 0.5%, but rebounded in 1995 by 2.0%. Inflation, which neared 20% in 1991, had been lowered to 8.1% in 1995, lower than the many EU countries that struggled mightily with inflation in the mid-1990s. As Greece pursued an economic austerity program aimed at meeting the criteria for European economic and monetary union (EMU), inflation continued to fall, reaching less than 4% at the end of 1998. Greece entered into the EMU in 2001.

As of 2002, the public deficit was well below the EU limit of 3% of GDP, the country's debt trend was being reduced (although at over 100% of GDP it remained the third-highest in the euro zone behind Belgium and Italy), and Greece was one of Europe's fastest growing economies in 2001 with GDP growth at 4.7%. Unemployment remained high at over 10%, and yet the country is in need of introducing social insurance reform. Greece has a large public sector, but is implementing privatization policies: sales of stakes in the state oil refining group and the state gas company were forthcoming in 2003. Businesses look to reform of the tax structure—the corporate tax rate was 35% in 2002. Public and private investment was strong in 2003, in preparation for the 2004 Olympic Games to be held in Athens.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Greece's gross domestic product (GDP) was estimated at \$201.1 billion. The per capita GDP was estimated at \$19,000. The annual growth rate of GDP was estimated at 3.5%. The average inflation rate in 2002 was 3.6%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 9% of GDP, industry 22%, and services 70%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$1.613 billion or about \$152 per capita and accounted for approximately 1.4% of GDP. Worker remittances in 2001 totaled \$1.471 billion.

The World Bank reports that in 2000 per capita household consumption (in constant 1995 US dollars) was \$9,398. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 3%. Approximately 32% of household consumption was spent on food, 14% on fuel, 5% on health care, and 14% on education. The richest 10% of the population accounted for approximately 25.3% of household consumption and the poorest 10% approximately 3.0%.

## 2<sup>1</sup>LABOR

In 1999, the labor force was estimated at about 4.2 million people. Between 1970 and 2000, the estimated proportion of the labor force in agriculture declined from 56% to 20%, while the proportion of the workforce in manufacturing climbed to 21% and services rose from 24% to 59%. Unemployment was 10.3% in 2002, compared with 2.4% in 1980 and almost 20% in 1991.

In 2002, 650,000 workers, or about 26% of the labor force, belonged to unions. Altogether, there were over 4,000 trade unions. Unions are organized on a territorial rather than a plant basis: all workers of a certain trade in a town usually belong to one union. On a nationwide scale, union members of the same trade or profession form a federation; the General Confederation of Greek Workers (GSEE) is the central core of the private sector union movement. Government plays an important role in labor-management relations. Collective bargaining and the right to strike are protected by law, although workers must give notice of an intent to strike (4 days for public utilities, 24 hours in the private sector). Because of a history of compulsory arbitration as a means to resolve labor disputes, unions successfully lobbied for new legislation passed in 1992, which restricts the use of compulsory arbitration in favor of mediation procedures.

The maximum legal workweek is 40 hours in the private sector and 37.5 hours in the public sector. As of 2002, the minimum monthly salary negotiated by the GSEE was \$19.50 per day or \$435.50 per month. This amount provides a decent standard of living for a family. Annual vacations (of up to a month) with pay are provided by law, and in general, employment of children under the age of 15 is prohibited. Industrial health and safety standards are set by law and regularly enforced.

## 2<sup>2</sup>AGRICULTURE

Agriculture in Greece suffers not only from natural limitations, such as poor soils and droughts, but also from soil erosion, lack of fertilizers, and insufficient capital investment. The total agricultural workforce was 794,000 people in 1999.

About 30% of the land area is cultivable, and it supports over half of the population. Of the land under cultivation in 1998, about 72% was planted in seasonal crops, and 28% in orchards and vineyards. About 36% of the agricultural land was irrigated in 1998. Although agriculture accounts for 20% of the work force, its role in the economy is declining; in 2000 agriculture accounted for 9% of GDP, down from 25% in the 1950s.

In recent decades, Greek agriculture has been characterized by an increasing diversification of fruit crops for export. Agricultural production of principal crops in 1999 was estimated as follows (in thousands of tons): sugar beets, 2,350; tomatoes, 2,060; wheat, 1,900; corn, 1,900; oranges, 900; peaches and nectarines, 500; olive oil, 378; cotton, 384; barley, 414; apples, 360; and tobacco, 126.

Progress has been made toward modernization in machinery and cultivation techniques. Agricultural products, including processed foods, beverages, and tobacco, make up one-third of total exports. To expand agricultural production and encourage farm prosperity, the government exempts agricultural income from most taxes, extends liberal farm credits, and subsidizes

agriculture. It also operates a service by which individual growers or cooperatives may hire heavy farm equipment at low prices, encourages the development of industries that use farm products, provides educational programs, and has sought to halt the trend toward ever-smaller farm holdings. More than 241,000 tractors, 5,500 harvester-threshers, and 14,600 milking machines were in use in 1998.

## 2<sup>3</sup>ANIMAL HUSBANDRY

In 2001 there were 9,269,000 sheep, 5,180,000 goats, 936,000 hogs, 579,000 head of cattle, 72,000 donkeys, 33,000 horses, 40,000 mules, and 28,000,000 chickens. Although production of milk, meat, and cheese has risen greatly since the end of World War II (1939–45), Greece still must import substantial quantities of evaporated and condensed milk, cheese, cattle, sheep, hides, and meat. Estimated meat production in 2001 included 142,000 tons of poultry, 137,000 tons of pork, 122,000 tons of mutton and goat meat, and 60,000 tons of beef and veal. Livestock products in 2001 included (in thousands of tons) cow's milk, 815; sheep milk, 670; goat milk, 435; cheese, 240; eggs, 106; honey, 14; and butter, three. Recent modernization in machinery has especially helped poultry and hog operations. Exports of dairy and egg products were valued at \$111.6 million in 2001 (mostly going to EU nations).

## 2<sup>4</sup>FISHING

The fishing industry has expanded and been modernized in recent years. At the beginning of 1996, the Greek fishing fleet consisted of 20,461 vessels with 121,664 GRT. The total fish catch was 99,280 tons in 2000. A total of \$227.8 million of fish and fish products were exported that year. In the north of Greece, freshwater fisheries have been restocked and developed.

Sponge fishing, formerly an important undertaking in the Dodecanese and other regions, decreased in volume from 135.5 tons of sponges in 1955 to 10 tons in 2000.

## 2<sup>5</sup>FORESTRY

Forests cover about 28% of the total area. Much of the forest area was destroyed during the 1940s, but the government's reforestation program planted more than 100 million trees during the 1970s and 1980s. Pine, fir, and oak are the most common trees, and resin and turpentine are the principal products. In 2000, 2,171,000 cu m (76,640,000 cu ft) of roundwood were harvested, including 1.375 million cu m (48.5 million cu ft) of firewood. Sawn wood production in 2000 totaled 137,000 cu m (4,836,000 cu ft), and wood-based panels, 563,000 cu m (19.9 million cu ft). Production of timber is insufficient to meet the domestic demand, and many forestry products are imported. Total trade in forestry products in 2000 amounted to \$619.9 million imports and \$71.3 million in exports.

## 2<sup>6</sup>MINING

The minerals industry, consisting of the mining, industrial minerals, and metal processing sectors, was a small but important part of the national economy. Greece, the only Balkan country in the EU, was the union's largest producer of bauxite, magnesium, nickel, and perlite, and was second to the US in bentonite production (from Milos Island). Chromite (from Tsingeli Mines, near Volos) and zinc (from Cassandra Mines, in Olympias and Stratonis) were other important commodities. Greek marble, produced in all parts of the country, continued to play a leading role in the international dimension stone market because of its versatility and many colors (ash, black, brown, green, pink, red, and multicolored). With the exception of bauxite, Greece's mines operated far below their productive capacity. A relatively small industrial base, lack of adequate investment, and distance from EU markets have restricted the export potential of the country; the emerging Balkan markets could offer opportunities for



growth. About 50% of the country's mineral production was exported. Northern Greece was thought to contain a significant amount of exploitable mineral resources, and most new activities were directed toward gold.

Production outputs for 2001 were: bauxite, 1.99 million tons, compared to 1.82 million tons in 1998 and 3.1 million tons in 1980; nickel (content of ferronickel), 16,870 tons; crude perlite, 600,000 tons, down from 777,898 in 1999; and crude magnesite, 500,000 tons, down from 650,000 in 1998. Other types of magnesite produced were dead-burned, caustic-calcined, and crude huntite/hydromagnesite, which had unique flame-retardant properties. Grecian Magnesite S.A., with its open-pit mine at Yerakini, was a leading magnesite producer in the western world. Also produced in 2001 were alumina, lead, manganese, silver, barite, cement, kaolin, feldspar, gypsum (from Crete), anhydrite, nitrogen, pozzolan (Santorin earth, from Milos), pumice (from Yali), salt, silica, sodium compounds, dolomite, marble, flysch, quartz, sulfur, zeolite, and crude construction materials. No asbestos was produced in 1999–2001; ore output was 4 million tons in 1998 and 5 million tons in 1996. Other mineral deposits of commercial importance were antimony, gold (placer dredger), asbestos, emery, ceramic clay, talc, and limestone. Industrial processing of mineral ores was very limited until the 1960s and 1970s, when facilities for refining nickeliferous iron ore and bauxite were developed. In 2000, five mining companies handled 60% of the mineral industry's production.

## 27 ENERGY AND POWER

Coal and oil are imported to supply power for the many small generating plants spread over the country. Before World War II, the Athens-Piraiévs Electricity Co. operated the only modern plant in Greece, which ran on imported coal. In 1950, the government-organized Public Power Corp. was established to construct and operate electricity generating plants and power transmission and distribution lines; by 1955, it had erected four major power plants. In 1965, the first two units of the Kremasta hydroelectric station were opened; by 2001, installed capacity totaled 10.2 million kW. Production of electricity increased from 8,991 million kWh in 1970 to 50,400 million kWh in 2000, of which 91.5% was provided by thermal power, 6.6% by hydroelectric stations, and the rest by other sources. It has been estimated that 15% of Greece's energy needs can be supplied by wind power by 2010, and there are wind farms on Crete, Andors, and a number of other Greek islands. As of 2002 solar water heaters were used in 20% of Greek homes.

As of 2002, 63% of Greece's total energy consumption came from oil. Greece has actively explored offshore oil resources. A field off Thásos in the northern Aegean began operations in July 1981. Total production, however, fell from 25,000 to 6,000 barrels per day between 1986 and 1998. Oil production was 8,992 barrels per day in 2001, from reserves estimated at 9 million barrels. Consumption was 406,000 barrels per day, making Greece strongly reliant on imported oil, mostly from Russia, Iran, Saudi Arabia, Egypt, and Libya. Natural gas production in 2000 amounted to only 2.8 million cu m, compared with consumption of 2 billion cu m. Greece imports natural gas from Russia and Algeria. Greece's only substantial fossil fuel resource is brown coal, or lignite. Its lignite reserves totaled 3,168 million tons in 2000; production in 1999 totaled 67.2 million tons. A National Energy Council was created in 1975 to coordinate and support energy development.

## 28 INDUSTRY

Manufacturing, which now ranks ahead of agriculture as an income earner, has increased rapidly owing to a vigorous policy of industrialization. However, Greek industry must rely on imports for its raw materials, machinery, parts, and fuel. Greece has only a rudimentary iron and steel industry and does not

manufacture basic transport equipment, such as cars and trucks. Industry is concentrated in the Athens area.

Chief industries in 1995 accounted for the following proportions of manufacturing's share of the GDP: food, beverages and tobacco, 25%; metals and metals manufactures, machinery and electrical goods, 17%; chemicals, 13%; textiles, 18%; nonmetallic minerals, 6%; and transport equipment, 4.3%. Although the government controls certain basic industries, such as electric power and petroleum refining, most industry is privately owned. The portion of government-controlled industries is declining as the state divests itself of substantial control over key holdings such as Olympic Airways and the telecommunications company, OTE.

The industrial sector accounted for 13% of GDP in 2001, and it grew by 5% in 2000. Food production increased by 3.6% in 2000, and the production of chemicals rose by 1.7%. Due to an increase in housing construction, cement production rose 1.5%, and construction as a whole rose 9% in 2001. High technology equipment is a growth sector, as is the production of electrical machinery (up 18.3% in 2000), and office machinery and computers (up 13.6% in 2000). Greek ship owners committed to invest close to \$2 billion in new shipbuilding in 2002. Industrial production as a whole was forecast to grow 3.8% in 2003.

## 29 SCIENCE AND TECHNOLOGY

The Academy of Athens, founded in 1926, oversees the activities of research institutes in astronomy and applied mathematics and in atmospheric physics and climatology. Greece has five other scientific research institutes. Specialized scientific learned societies include the Association of Greek Chemists, founded in 1924, and the Greek Mathematical Society, founded in 1918, both headquartered in Athens. Advanced scientific and technical training is provided at nine colleges and universities. The University of Athens has maintained a zoological museum since 1858. In 1987–97, science and engineering students accounted for 26% of university enrollment. In the early 1980s, the government established a Ministry of Research and Technology to foster scientific and technological development. Greece had 733 scientists and engineers and 314 technicians per million people engaged in research and development in 1987–97; total expenditures on research and development amounted to 0.5% of GNP.

## 30 DOMESTIC TRADE

Industry and trade are centered around about 20 seaports throughout the country. Athens, Piraeus, and Thessaloniki are the principal commercial cities; importers and exporters have offices in these cities and branches in other centers. In 2002, there were about 300,000 wholesale and retail trading establishments in the country.

In general, small shops specialize in particular lines of merchandise, but there are a few department stores in Athens. Most people buy in the small shops, in the markets, and from itinerant peddlers. Usual private sector business hours are from 8 AM to 5 PM on Monday through Friday. Manufacturing plants generally operate from 7 AM to 3 PM. Banking hours are from 8:30 AM to 2 PM Monday through Friday. Government offices are open from 7:30 AM to 3 PM weekdays in October through May and from 7 AM to 2:30 PM from May through September. Businesses often closed for extended vacations throughout July and August, reopening in September after the annual trade fair.

Advertising is used widely in the towns and cities, and several advertising agencies are active in Athens and Thessaloniki. The most common media are newspapers, radio, films, billboards, neon signs, and window displays. The principal annual trade fair is the International Fair of Thessaloniki, held in September.

### 31 FOREIGN TRADE

Garments and cotton provide Greece with the most exports (16%), followed by petroleum products (14%); fruit, nuts, and vegetable oils (11%); and tobacco (3.0%). Tobacco exports from Greece are substantial on the world commodities export market (3.6%)

In 2000 Greece's imports were distributed among the following categories:

Consumer goods	17.5%
Food	9.6%
Fuels	13.4%
Industrial supplies	24.4%
Machinery	17.4%
Transportation	16.8%
Other	0.9%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	1,346	3,813	-2,467
Italy	1,011	3,856	-2,845
United Kingdom	692	1,483	-791
United States	638	1,023	-385
Turkey	550	396	154
France	374	2,153	-1,779
Spain	335	1,018	-683
Netherlands	317	1,735	-1,418
Russia	249	1,095	-846
Japan	86	1,179	-1,093

### 32 BALANCE OF PAYMENTS

Because it imports more than twice the value of its exports, Greece has registered chronic annual deficits in its balance of payments. The major contributors to Greece's foreign exchange earnings are tourism, shipping services, and remittances from Greek workers abroad. Greece's relatively small industrial base and lack of substantial investment since the mid-1990s limited the country's export potential. Greece's productive base expanded in 1999 and 2000, however, in part due to a thriving stock exchange, and low interest rates. A devaluation of the drachma in 1998 and its inclusion in the euro zone in 1999 restored Greek competitiveness.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Greece's exports was \$12.6 billion while imports totaled \$31.4 billion resulting in a trade deficit of \$18.8 billion.

The International Monetary Fund (IMF) reports that in 2001 Greece had exports of goods totaling \$10.6 billion and imports totaling \$29.7 billion. The services credit totaled \$19.5 billion and debit \$11.6 billion. The following table summarizes Greece's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-9,400</b>
Balance on goods	-19,087
Balance on services	7,867
Balance on income	-1,767
Current transfers	3,587
<b>Capital Account</b>	<b>2,153</b>
<b>Financial Account</b>	<b>537</b>
Direct investment abroad	-611
Direct investment in Greece	1,585
Portfolio investment assets	-474
Portfolio investment liabilities	9,012
Other investment assets	-1,539
Other investment liabilities	-7,511
<b>Net Errors and Omissions</b>	<b>1,011</b>
<b>Reserves and Related Items</b>	<b>5,699</b>

### 33 BANKING AND SECURITIES

The government-controlled Bank of Greece (founded in 1927) is the central bank and the bank of issue; it also engages in other banking activities, although the European Central Bank is in charge of monetary policy. There are 33 Greek commercial banks, which are dominated by two massive, state-controlled banking groups, the National Bank and the Commercial Bank. 19 of the commercial banks are foreign, including three American banks. The two leading private banks are Alpha Credit and Ergo, which ranked third and fifth, respectively, in 1997 in the Greek banking industry in terms of assets. Banks still must redeposit 70% of all their foreign exchange deposits with the Bank of Greece at the going interest rate plus a small commission. In 1999, as part of a general privatization program, the government began selling shares in the National Bank of Greece and Ionian Bank was sold outright and taken over by Alpha Credit.

The Currency Committee, composed of five cabinet ministers, controls the eight specialized credit institutions: the Agricultural Bank, National Investment Bank, National Investment Bank for Industrial Development, Hellenic Industrial Development Bank, National Mortgage Bank, Mortgage Bank, Postal Savings Bank, and Consignments and Loans Fund. The money supply in 2001, as measured by M1, was 24.7 billion euros. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$22.2 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$129.6 billion.

The Athens Stock Exchange (Chrimatisterion) was founded by royal decree in 1876. In 1967, significant reforms were instituted, including more stringent listing requirements, bringing about a rapid increase in the number of listed securities. New legislation was introduced in 1988 to expand and liberalize its activities. The rule changes provided for the establishment of brokerage companies, thus breaking the traditional closed shop of individual brokers. In 1997 there were 53 brokerage houses and just 6 private brokers. Computerized trading was implemented in 1992 and there has since been a rapid evolution of the market. The aim is to secure total dematerialization of shares and to allow brokers to screen-trade from their offices. A satellite trading floor was established in Thessaloniki in 1995. In 1996, Greek law was harmonized with the EU financial services directive, and banks may now be directly represented on the floor of the exchange instead of having to establish subsidiary brokerage houses. The late 1990s witnessed a boom on the exchange. In 1998, the index rose 85%, while the first five months of 1999 saw a further jump of 43.7%. However, this expansion did not continue into the new millennium. Between 2002 and 2003, the index lost 33.1% of its value.

### 34 INSURANCE

The Greek insurance market is small, with 1994 premium income at just D384 billion, equivalent to 1.4% of the GDP. This figure is compared to a European average of 5%. However, there has been some strong expansion in the life sector. There is a concentration of activity among a few companies, and in 1993 the top ten general insurance companies had 51% of the market and the top ten life companies, 84%. Around one-third of the companies operating in the market are foreign-owned, and most of the larger domestic firms have foreign connections. Most large insurance companies are partly or wholly owned by banks. Insurers are required to join several unions, trade groups, and insurance pools. Brokers in Greece also must be accepted by the Ministry of Trade. In Greece, the social security scheme and third-party automobile liability insurance are compulsory.

Insurance companies have begun to develop private pension schemes and corporate pension schemes. However, most

occupational pension funds remain under state control because they are part financed by state-enacted levies. Insurance companies have also been responsible for the recent explosion in unit trusts (mutual funds), from two in 1989 to 152 in December 1995, when there were more than D2 trillion (7.8% of GDP) under management.

### 35 PUBLIC FINANCE

The state budget includes ordinary revenues and expenditures and a special investment budget administered by the Ministry of Coordination. The public sector, which employs 15% of the workforce, has many more civil servants than required for a country the size of Greece. Public payrolls, liberal social security benefits, and loss-generating state owned companies have all contributed to a government deficit. Recent austerity measures implemented to meet the criteria for European Monetary Union membership significantly lowered the budget shortfall.

The US Central Intelligence Agency (CIA) estimates that in 1998 Greece's central government took in revenues of approximately \$45 billion and had expenditures of \$47.6 billion. Overall, the government registered a deficit of approximately \$2.6 billion. External debt totaled \$63.4 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.2%	45,109
Tax revenue	82.9%	37,290
Non-tax revenue	6.2%	2,809
Capital revenue	0.6%	266
Grants	10.5%	4,744
EXPENDITURES	100.0%	47,609
General public services	4.6%	2,179
Defense	8.4%	4,001
Public order and safety	3.3%	1,577
Education	10.8%	5,153
Health	7.1%	3,361
Social security	17.9%	8,531
Housing and community amenities	2.3%	1,092
Recreation, cultural, and religious affairs	1.3%	597
Economic affairs and services	12.5%	5,952
Other expenditures	2.7%	1,268
Interest payments	29.2%	13,898

### 36 TAXATION

The corporate income tax rate in Greece in 2002 was 35%. The profits of general partnerships (OE) and limited partnerships (EE) were taxed at 25%. A discount of 2.5% was given to companies that settled their corporate tax liability in full when they filed their tax returns. A 3% surcharge was applied to gross rental income, but the surcharge was not to exceed the primary corporate tax. Capital gains were taxed at rates between 20% and 35%.

The progressive personal income tax schedule for 2002 had six brackets: 0% on income to €6,163; 5% on the next increment of income to €8,352; 15% on the next increment to €13,359; 30% on the next increment to €23,257; 40% on the next increment to €50,028; and 42.5% on the increment of income above €50,028. There was a 5% surcharge on non-resident incomes that exceeded €5,869, but EU residents were exempt if 90% of their income comes from Greek sources. Various deductions or tax credits can be applied to taxable income for medical and hospitalization expenses; social security taxes; interest payments on home loans; and donations to charitable organizations, with special deductions for families whose income is derived primarily

from their own work on agricultural enterprises. The withholding tax is 35% on interest income and 24% on royalty payments, but these are often reduced or eliminated in bilateral double tax prevention treaties, of which Greece has concluded more than 35. There is no withholding on dividend income in any case. Gift and inheritance taxes range from 0% to 60%. There is a tax of 0.7% on large estates valued at more than €176,082, and a real estate transfer tax of 11% to 13% on urban property and 9% to 11% on rural property.

The main indirect tax in Greece is its value-added tax (VAT) introduced in January 1987. The standard VAT rate in 2002 was 18%. There were also three reduced rates-0% on domestic transportation; 4% on books, newspapers and periodicals, admissions to cultural events, and some food production; and 8% on foodstuffs, the water supply, some pharmaceuticals, medical equipment, medical care and dentistry, social housing, social services, agricultural inputs, hotels, sporting events, use of sporting facilities; and waste collection and treatment-and a higher 36% rate for a few restricted and luxury goods. Excise duties are charged on tobacco, alcohol, gasoline, and automobiles.

### 37 CUSTOMS AND DUTIES

The import tariff protects domestic products and provides a source of government revenue. Many Greek industries are not yet large enough or sufficiently modern to compete in price with foreign products, either in markets abroad or in Greece itself. As a full member of the European Union since 1981, Greece eliminated its remaining tariffs and quotas on imports from EU nations by 1986 and aligned its own tariffs on imports from other countries with those of EU members. Greek exports to EU countries are tariff-free. Imports from non-EU countries are subject to the EU's common customs tariff. Most raw materials enter duty-free, while manufactured goods have rates between 5% and 7%. Textiles, electronics, and some food products have higher rates. Motor vehicles, yachts, and motorcycles are subject to special duties. In addition, Greece imposes an 8% to 18% value-added tax and special consumption taxes on alcohol and tobacco up to 150%.

### 38 FOREIGN INVESTMENT

The government encourages foreign capital investment and protects foreign investors against compulsory appropriation of their assets in Greece. Incentives include reduced tax rates and increased depreciation rates.

Total direct foreign investment (FDI) was estimated at \$3.78 billion in 1995. From 1995 to 1997, FDI inflow averaged about \$1 billion a year. In the wake of the Russian financial crisis of 1998, FDI inflow fell to \$700 million in 1998 and to \$567 million in 1999. FDI inflow in 2000 reached over \$1 billion and grew to a record \$1.56 billion in 2001. In 2002, FDI inflow fell nearly 90% to \$50.3 million. For the period 1999 to 2002, FDI inflow averaged about \$833 million. Total FDI stock in 2002 was over three times the 1995 level, totaling \$12.5 billion.

Outward FDI flow was \$542 million in 1999, over \$2 billion in 2000, and \$611 million in 2001. Outward FDI increased to \$655.3 million in 2002. For the period 1999 to 2002, average outward FDI from Greece was \$993.3 billion. The total stock of outward FDI held by Greek investors was \$5.86 billion in 2002.

### 39 ECONOMIC DEVELOPMENT

Until the mid-1970s, Greek governments devoted themselves principally to expanding agricultural and industrial production, controlling prices and inflation, improving state finances, developing natural resources, and creating basic industries. In 1975, the Karamanlis government undertook a series of austerity measures designed to curb inflation and redress the balance-of-payments deficit. A new energy program included plans for

stepped-up exploitation of oil and lignite reserves, along with uranium exploration in northern Greece. Increased efforts at import substitution were to be undertaken in all sectors. On 7 March 1975, in an effort to strengthen confidence in the national currency, the government announced that the value of the drachma would no longer be quoted in terms of a fixed link with the US dollar, but would be based on daily averages taken from the currencies of Greece's main trade partners.

The Socialist government that took office in 1981 promised more equal distribution of income and wealth through "democratic planning" and measures to control inflation and increase productivity. It imposed controls on prices and credit and began to restructure public corporations. But the government was cautious in introducing what it called "social control in certain key sectors" of the economy, and it ordered detailed studies to be made first. Its development policies emphasized balanced regional growth and technological modernization, especially in agriculture. The conservative government that came to power in 1990 adopted a 1991–93 "adjustment program" that called for reduction of price and wage increases and a reduction in the public-sector deficit from 13% to 3% of GDP. Twenty-eight industrial companies were to be privatized.

In recent years, the chief goal of the Simitis government was admission to the European Monetary Union (EMU). As a consequence, his government instituted an austerity program aimed to tackle chronically high inflation, unemployment, and a bloated public sector. By 1998–99, these policies showed significant progress. Greece gained admission to the EMU in 2001, and adopted the euro as its new currency in 2002. The Greek economy was growing at rates above EU averages in 2002–03; however, unemployment and inflation rates were still higher than in most euro-area countries. In 2002, Greece's general government debt stood at approximately 99% of GDP. Greece benefits from EU aid, equal to about 3.3% of GDP.

Privatization of state-owned enterprises has moved at a relatively slow pace, especially in the telecommunications, banking, aerospace, and energy sectors. In 2003, preparations for the 2004 Olympics drove investment.

#### 40 SOCIAL DEVELOPMENT

The Social Insurance Foundation, the national social security system, is supported by contributions from employees, employers and the government. It provides for old age, disability and survivorship. Work Injury and unemployment benefits are also provided. The National Health Service is a social insurance program providing sickness and maternity benefits. Benefits include medical care, hospitalization, medicine, maternity care, dental coverage, appliances and transportation.

The General Secretariat for Equality of the Sexes works to improve opportunities for women and also provides assistance to battered women. Domestic violence and rape remains underreported, and the number of prosecutions and convictions is low. Although the law mandates equal pay for equal work, it is estimated that women earn considerably less than men. Women are beginning to enter traditionally male-oriented careers such as law and medicine, but only make up 38% of the work force. Sexual harassment is specifically prohibited by law.

Occasional human rights abuses, involving residents, illegal aliens and persons in custody have been reported. Government measures to improve prison conditions continue. The Constitution prohibits discrimination on the basis of nationality, race, language, religion, or political beliefs. In practice the government does not always protect these rights.

#### 41 HEALTH

Since World War II, the government has broadened health services by building new hospitals and providing more clinics and medical personnel. As of 1999, total health care expenditure was

estimated at 8.4% of GDP. Also as of 1999, there were an estimated 4.1 physicians and 5 hospital beds per 1,000 people. There are severe air quality problems in Athens. Pulmonary tuberculosis, dysentery, and malaria, which were once endemic, have been controlled. The incidence of typhoid, which was formerly of epidemic proportions, dropped to only 149 cases in 1985 following the application of US aid to improve sanitary conditions in more than 700 villages. At present, 100% of the population has access to safe water. In 1999, Greece immunized children up to one year of age against diphtheria, pertussis, and tetanus, 88%, and measles, 88%. In 2000, the infant mortality rate was 5 per 1,000 live births. The total fertility rate in 1980 (2.2) has dropped to 1.3 as of 2000. The sharp birth rate decline since World War II has been attributed to the legalization of abortion. In 2000, life expectancy averaged 78 years. As of 2002, the overall mortality rate was estimated at 9.8 per 1,000 people. The birthrate was an estimated 9.8 per 1,000 people. A large percentage of Greek men (54%) and women (13%) smoked between 1986 and 1994.

As of 1999, the number of people living with HIV/AIDS was estimated at 8,000 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.2 per 100 adults.

#### 42 HOUSING

Construction of new dwellings (including repairs and extensions) reached 88,477 units in 1985 and rose to 120,240 in 1990. In 1996, the total number of housing units was 3,601,000. Most new construction is in Athens or Thessaloniki, indicating the emphasis on urban development. Considerable amounts of private investment have been spent on the construction of apartment houses in urban areas. In 2001, about 50% of all housing units were apartments. In 2000, about 97,000 new dwellings were completed.

#### 43 EDUCATION

For the year 2000, adult illiteracy was estimated at 2.8% (males, 1.4%; females, 4.0%). Education is free and compulsory for nine years beginning at age six, and primary education lasts for six years. Secondary education is comprised of two steps: first three years, followed by an additional three years of college preparation. The central and local governments pay the cost of state schools, and private schools are state-regulated. In 1997 there were 6,651 primary schools with 652,040 pupils and 46,758 teachers. Student-to-teacher ratio stood at 14 to 1. In the same year, secondary schools had 817,566 pupils and 70,682 teachers. The pupil-teacher ratio at the primary level was 13 to 1 in 1999. In the same year, 97% of primary-school-age children were enrolled in school, while 86% of those eligible attended secondary school. Greece's six major universities—Athens, Salonika, Thrace, Ioánnina, Crete, and Pátrai—together with the National Technical University of Athens, the new University of the Aegean, and the Technical University of Crete, plus seven special institutions of higher education, enrolled 363,150 students in 1997; teaching staff totaled 16,057. Private universities are constitutionally banned. As of 1995, public expenditure on education was estimated at 2.9% of GDP.

In July 1982, the Socialist government initiated a program to democratize the higher-education system; a law was approved that diminished the power of individual professors by establishing American-style departments with integrated faculties. Junior faculty members and representatives of the student body were granted a role in academic decision-making. The legislation also curbed university autonomy by establishing the National University Council to advise the government on higher-education planning, and the Academy of Letters and Sciences to set and implement university standards.

#### 44 LIBRARIES AND MUSEUMS

The National Library traces its origins to 1828, when it was established on the island of Aiyina; the library was moved to its present site in Athens in 1903 and today has more than 2.5 million volumes. The National Library building suffered damage from earthquakes in 1981 and 1999. Both the National Library and the Library of Parliament (1.5 million volumes) act as legal depositories for Greek publications and are open to the public. Public libraries are located mainly in provincial capitals, and there are regional libraries with bookmobile services for rural areas. In 1997, there were 672 public libraries with a total of 9.1 million volumes. Besides the libraries attached to the universities and other educational institutions, there are several specialized research libraries located in Athens. Outstanding special collections can be found at the Democritus Nuclear Research Center (91,000 volumes), the Center of Planning and Economic Research (30,000 volumes), the Athens Center of Ekistics (30,000 volumes), and the Gennadius Library (80,000 volumes), which houses a large collection on modern Greek history. Being at the crossroads of different civilizations and an important European country, there are several libraries attached to various cultural and ethnic studies centers. Notable among these are the libraries of the Institute for Balkan Studies in Thessaloniki, the British Council, the Society for Byzantine Studies in Athens, and the Center for Asia Minor Studies in Athens.

Most museums are devoted to antiquities and archaeology. One of the richest collections of Greek sculpture and antiquities is found at the National Archaeological Museum in Athens, which is also home to the Byzantine and Christian Museum, Benaki Museum, and Kanellopoulos Museum. The most impressive archaeological remains, of course, are the great temples and palaces at Athens (particularly the Parthenon and the Stoa of Attalos), Corinth, Salonika, Delphi, Olympia, Mycenae, the island of Delos, and Knossos, on Crete. There are also notable museums dedicated to the work of other cultures, including the Byzantine Museum and the Jewish Museum, both in Athens. Among the newer facilities are the Hellenic Children's Museum (1987), the Museum of Greek Popular Musical Instruments (1991), the Museum of Delphic Celebrations of Angelos and Eva Sikelianou (1991), the Nikolaos Parantinos Museum of Sculpture (1991), and the Maria Callas Museum (2003) all located in Athens.

#### 45 MEDIA

The government owns and controls all communications. The Greek Telecommunications Authority operates domestic telegraph and telephone communications; in 1997 there were 5.4 million main line telephones and 937,700 mobile cellular phones. Radio Athens broadcasts are carried by provincial relay stations located in various parts of the country; other stations are operated by the Greek armed forces and by the Hellenic National Radio and Television Institute. As of 1999 there were 29 AM and 17 FM radio stations, and 64 television stations. In 2000 there were 478 radios and 488 television sets for every 1,000 people. The same year, there were 71 personal computers for every 1,000 people and 27 Internet service providers serving about 1.33 million people.

Before the 1967 coup, most newspapers represented political views, and success in politics often depended to a considerable extent on newspaper support. This tradition made the newspapers particularly vulnerable to accusations of violating the junta's security regulations. Some newspapers voluntarily shut down, and others were ordered to suspend publication. The collapse of the military regime in 1974 led to constitutional restoration of freedom of the press. Many banned newspapers reappeared and circulations steadily increased. In 2002, there were over 150 daily papers throughout the country. The largest

Athens dailies (with estimated 2002 circulation rates) are *To Vima* (250,000), *Eleftheros Typos* (167,186), *Ta Nea* (135,000), *Ethnos* (84,700), *Apogevmatini* (72,900), and *Avriani* (51,300).

The constitution provides for freedom of speech and press, and with a few exceptions the government is said to respect these rights. On matters involving the politically sensitive subject of the recognition of certain ethnic minorities, it is reported that the government is restrictive. The constitution also allows for seizure of publications that insult the President, offend religious beliefs, contain obscene articles, advocate violent overthrow of the political system, or disclose military and defense information. However, such action is very rare.

#### 46 ORGANIZATIONS

Most of the larger cities and towns have associations of commerce, industry, handicrafts, and finance. There are some consumers' and producers' cooperatives; chambers of commerce and industry function in Athens, Piraiévs, and Salonika. Artists, writers, musicians, educators, and journalists are organized into professional associations. Scholarly societies include those devoted to archaeology, anthropology, geography, history, political science, and sociology. The Academy of Athens serves to promote public interest in science and works to improve availability and effectiveness in science education programs.

National youth organizations in Greece include the Geek Democratic Socialist Youth, Girl Guides and Girl Scouts of Greece, the Association of Boy Scouts, YMCA/YWCA, the Greek Youth Federation, the Radical Left Youth, and the Student and Scientist Christian Association of Greece. There are several sports organizations in Greece, including the historical societies of the Hellenic Federation of Ancient Olympic Games and the International Society of Olympic Historians.

#### 47 TOURISM, TRAVEL, AND RECREATION

Principal tourist sites, in addition to the world-famous Parthenon and Acropolis in Athens, include Mt. Olympus (the home of the gods in ancient mythology), the site of the ancient oracle at Delphi, the Agora at Corinth, and the Minoan ruins on Crete. Operas, concerts, ballet performances, and ancient Greek dramas are presented at the Athens Festival each year from July to September; during July and August, Greek classics also are performed in the open-air theater at Epidaurus, 40 km (25 mi) east of Árgos. Popular sports include swimming at the many beaches, sailing and water skiing, fishing, golf, and mountain climbing.

The Greek government encourages tourists and facilitates their entry and accommodation. A passport is needed for admission, but for visitors from most countries, no visa is required. Citizens of the US, UK, Canada, and many other countries who remain in Greece for more than three months must obtain residence permits, which are valid for six months, and present sojourn and exit permits on leaving the country. Those wishing to reside in Greece permanently may be granted a residence permit valid for two years.

The number of foreign tourists visiting Greece in 1999 totaled 12,164,088 and tourism receipts totaled \$8.7 billion. There were 308,452 hotel rooms with 584,973 beds and an occupancy rate of 64% that year.

In 2002 the US government estimated the cost of staying in Athens at \$197 per day. Elsewhere in the country, daily expenses ranged from \$53 to \$193.

#### 48 FAMOUS GREEKS

The origins of Western literature and of the main branches of Western learning may be traced to the era of Greek greatness that began before 700 BC with the epics of Homer (possibly born in Asia Minor), the *Iliad* and the *Odyssey*. Hesiod (fl. 700 BC), the first didactic poet, put into epic verse his descriptions of pastoral

life, including practical advice on farming, and allegorical myths. The poets Alcaeus (620?–580? BC), Sappho (612?–580? BC), Anacreon (582?–485? BC), and Bacchylides (fl.5th cent. BC) wrote of love, war, and death in lyrics of great feeling and beauty. Pindar (522?–438? BC) celebrated the Panhellenic athletic festivals in vivid odes. The fables of the slave Aesop (b. Asia Minor, 620?–560? BC) have been famous for more than 2,500 years. Three of the world's greatest dramatists were Aeschylus (525–456 BC), author of the *Oresteia* trilogy; Sophocles (496?–406? BC), author of the Theban plays; and Euripides (485?–406? BC), author of *Medea*, *The Trojan Women*, and *The Bacchae*. Aristophanes (450?–385? BC), the greatest author of comedies, satirized the mores of his day in a series of brilliant plays. Three great historians were Herodotus (b. Asia Minor, 484?–420? BC), regarded as the father of history, known for *The Persian Wars*; Thucydides (460?–400? BC), who generally avoided myth and legend and applied greater standards of historical accuracy in his *History of the Peloponnesian War*; and Xenophon (428?–354? BC), best known for his account of the Greek retreat from Persia, the *Anabasis*. Outstanding literary figures of the Hellenistic period were Menander (342–290? BC), the chief representative of a newer type of comedy; the poets Callimachus (b. Libya, 305?–240? BC), Theocritus (b. Italy, 310?–250? BC), and Apollonius Rhodius (fl.3d cent. BC), author of the *Argonautica*; and Polybius (200?–118? BC), who wrote a detailed history of the Mediterranean world. Noteworthy in the Roman period were Strabo (b. Asia Minor, 64? BC–AD 24?), a writer on geography; Plutarch (AD 46?–120?), the father of biography, whose *Parallel Lives* of famous Greeks and Romans is a chief source of information about great figures of antiquity; Pausanias (b. Asia Minor, fl. AD 150), a travel writer; and Lucian (AD 120?–180?), a satirist.

The leading philosophers of the period preceding Greece's golden age were Thales (b. Asia Minor, 625?–547? BC), Pythagoras (570?–500? BC), Heraclitus (b. Asia Minor, 540?–480? BC), Protagoras (485?–410? BC), and Democritus (460?–370? BC). Socrates (469?–399 BC) investigated ethics and politics. His greatest pupil, Plato (429?–347 BC), used Socrates' question-and-answer method of investigating philosophical problems in his famous dialogues. Plato's pupil Aristotle (384–322 BC) established the rules of deductive reasoning but also used observation and inductive reasoning, applying himself to the systematic study of almost every form of human endeavor. Outstanding in the Hellenistic period were Epicurus (341?–270 BC), the philosopher of moderation; Zeno (b. Cyprus, 335?–263? BC), the founder of Stoicism; and Diogenes (b. Asia Minor, 412?–323 BC), the famous Cynic. The oath of Hippocrates (460?–377 BC), the father of medicine, is still recited by newly graduating physicians. Euclid (fl.300 BC) evolved the system of geometry that bears his name. Archimedes (287?–212 BC) discovered the principles of mechanics and hydrostatics. Eratosthenes (275?–194? BC) calculated the earth's circumference with remarkable accuracy, and Hipparchus (190?–125? BC) founded scientific astronomy. Galen (AD 129?–199?) was an outstanding physician of ancient times.

The sculptor Phidias (490?–430? BC) created the statue of Athena and the figure of Zeus in the temple at Olympia and supervised the construction and decoration of the Parthenon. Another renowned sculptor was Praxiteles (390?–330? BC).

The legal reforms of Solon (638?–559? BC) served as the basis of Athenian democracy. The Athenian general Miltiades (554?–489? BC) led the victory over the Persians at Marathon in 490 BC, and Themistocles (528?–460? BC) was chiefly responsible for the victory at Salamis 10 years later. Pericles (495?–429? BC), the virtual ruler of Athens for more than 25 years, added to the political power of that city, inaugurated the construction of the Parthenon and other noteworthy buildings, and encouraged the arts of sculpture and painting. With the decline of Athens, first

Sparta and then Thebes, under the great military tactician Epaminondas (418?–362 BC), gained the ascendancy; but soon thereafter, two military geniuses, Philip II of Macedon (382–336 BC) and his son Alexander the Great (356–323 BC), gained control over all of Greece and formed a vast empire stretching as far east as India. It was against Philip that Demosthenes (384–322 BC), the greatest Greek orator, directed his diatribes, the *Philippics*.

The most renowned Greek painter during the Renaissance was El Greco (Domenikos Theotokopoulos, 1541–1614), born in Crete, whose major works, painted in Spain, have influenced many 20th-century artists. An outstanding modern literary figure is Nikos Kazantzakis (1883–1957), a novelist and poet who composed a vast sequel to Homer's *Odyssey*. Leading modern poets are Kostas Palamas (1859–1943), Georgios Drosines (1859–1951), and Constantine Cavafy (1868–1933), as well as George Seferis (Seferiades, 1900–1972), and Odysseus Elytis (Alepoudhelis, 1911–96), winners of the Nobel Prize for literature in 1963 and 1979, respectively. Musicians of stature are the composers Nikos Skalkottas (1904–49), Iannis Xenakis (b. Romania, 1922–2001), and Mikis Theodorakis (b.1925); the conductor Dimitri Mitropoulos (1896–1960); and the soprano Maria Callas (Calogeropoulos, b. US, 1923–77). Contemporary filmmakers who have won international acclaim are Michael Cacoyannis (b.1922) and Constantin Costa-Gavras (b.1933). Actresses of note are Katina Paxinou (1900–1973); Melina Mercouri (1925–94), who was appointed minister of culture and science in the Socialist cabinet in 1981; and Irene Papas (Lelekou, b.1926).

Outstanding Greek public figures in the 20th century include Cretan-born Eleutherios Venizelos (1864–1936), prominent statesman of the interwar period; Ioannis Metaxas (1871–1941), dictator from 1936 until his death; Constantine Karamanlis (1907–98), prime minister (1955–63, 1974–80) and president (1980–85) of Greece; George Papandreu (1888–1968), head of the Center Union Party and prime minister (1963–65); and his son Andreas Papandreu (1919–96), the PASOK leader who became prime minister in 1981.

## 49 DEPENDENCIES

Greece has no territories or colonies.

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# HUNGARY

Republic of Hungary  
*Magyar Népköztársaság*

**CAPITAL:** Budapest

**FLAG:** The national flag, adopted in 1957, is a tricolor of red, white, and green horizontal stripes.

**ANTHEM:** *Isten áldd meg a magyart (God Bless the Hungarians).*

**MONETARY UNIT:** The forint (FT) of 100 fillérs is a paper currency with flexible rates of exchange. There are coins of 10, 20, and 50 fillérs and 1, 2, 5, 10, 20, 100, and 200 forints, and notes of 50, 100, 500, 1,000, and 5,000 forints. FT1 = \$0.00446 (or \$1 = FT224) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Anniversary of 1848 uprising against Austrian rule, 15 March; Labor Day, 1 May; Constitution Day, 20 August; Day of the Proclamation of the Republic, 23 October; Christmas, 25–26 December. Easter Monday is a movable holiday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Hungary is a landlocked country in the Carpathian Basin of Central Europe, with an area of 93,030 sq km (35,919 sq mi), extending 268 km (167 mi) N–S and 528 km (328 mi) E–W. Comparatively, the area occupied by Hungary is slightly smaller than the state of Indiana. It is bounded on the N by Slovakia, on the NE by the Ukraine, on the E by Romania, on the S by Serbia and Montenegro and Croatia, on the SW by Slovenia, and on the W by Austria, with a total boundary length of 2,171 km (1,349 mi). Hungary's capital city, Budapest, is located in the north central part of the country.

## <sup>2</sup>TOPOGRAPHY

About 84% of Hungary is below 200 m (656 ft) in altitude, its lowest point, at the Tisza River, being 78 m (256 ft) above sea level and the highest being Mt. Kékes (1,014 m/3,327 ft) in the Mátra Mountains, northeast of Budapest. The country has four chief geographic regions: Transdanubia (Dunántúl), the Great Plain (Alföld), the Little Plain (Kisalföld), and the Northern Mountains. Hungary's river valleys and its highest mountains are in the northeast. Generally, the soil is fertile. The chief rivers are the Danube (Duna) and Tisza. The largest lake is Balaton, which has an area of 601 sq km (232 sq mi).

## <sup>3</sup>CLIMATE

Hungary lies at the meeting point of three climatic zones: the continental, Mediterranean, and oceanic. Yearly temperatures vary from a minimum of -14°C (7°F) to a maximum of 36°C (97°F). The mean temperature in January is -4°C to 0°C (25° to 32°F) and in July, 18° to 23°C (64° to 73°F). Rainfall varies, but the annual average is approximately 63 cm (25 in)—more in the west and less in the east—with maximum rainfall during the summer months. Severe droughts often occur in the summers.

## <sup>4</sup>FLORA AND FAUNA

Plants and animals are those common to Central Europe. Oak is the predominant deciduous tree; various conifers are located in

the mountains. Among the abundant wildlife are deer, boar, hare, and mouflon. The Great Plain is a breeding ground and a migration center for a variety of birds. Fish are plentiful in rivers and lakes.

## <sup>5</sup>ENVIRONMENT

Chemical pollution of the air and water is extensive, but resources to combat pollution are scarce: a 1996 government study estimated that US\$350 million were needed to combat pollution, but only US\$7 million were allocated for this purpose. According to the study, air pollution affects 179 areas of the country, soil pollution affects 54 areas, and water pollution affects 32. Hungary is also one of 50 nations that lead the world in industrial carbon dioxide emissions, with a 1992 total of 59.9 million metric tons, a per capita level of 5.72 metric tons. Hungary has 6 cu km of renewable water resources, with 70% used for industrial purposes and 5% used for farming activity. The nation's cities produce about 1.9 million tons of solid waste. Hungary's principal environmental agency is the National Council for Environment and Nature Conservation, under the auspices of the Council of Ministers. In 1992, the United Nations reported the extinction of 93 species of Hungary's plants and animals. As of 2001, 8 of Hungary's mammal species and 10 of its bird species were endangered. Eight plant species were also endangered. Endangered species included the longicorn, the alcon large blue butterfly, the dusky large blue butterfly, and the Mediterranean mouflon.

## <sup>6</sup>POPULATION

The population of Hungary in 2003 was estimated by the United Nations at 9,877,000, which placed it as number 81 in population among the 193 nations of the world. In that year approximately 15% of the population was over 65 years of age, with another 17% of the population under 15 years of age. There were 91 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.46%, with the projected population for the year



2015 at 9,324,000. The population density in 2002 was 109 per sq km (282 per sq mi).

Since the early 1950s, there has been a fundamental shift of the population from rural to urban areas. It was estimated by the Population Reference Bureau that 64% of the population lived in urban areas in 2001. The capital city, Budapest, had a population of 1,836,000 in that year. Other urban areas include: Debrecen, 216,137; Miskolc, 192,355; Szeged, 177,679; Pécs, 170,542; Nyíregyháza, 114,955; Székesfehérvár, 111,478; and Kecskemét, 104,563. The urban growth rate has substantially slowed in recent years.

## **7**MIGRATION

Sizable migration during the two world wars resulted from military operations, territorial changes, and population transfers. Peacetime emigration in the decades before World War I was heavy (about 1,400,000 between 1899 and 1913). Emigration of non-Magyars was prompted by the repressive policy of Magyarization; groups also left because of economic pressures, the majority going to the United States and Canada. In the interwar period, migration was negligible, but after 1947 many thousands left, despite restrictions on emigration. As a result of the October 1956 uprising, approximately 250,000 persons fled Hungary. The largest numbers ultimately emigrated to the United States, Canada, the United Kingdom, the Federal Republic of Germany (FRG), France, Switzerland, and Australia. Emigration totaled 42,700 between 1981 and 1989. It is now virtually nonexistent; only 778 persons left in 1991, according to official statistics.

Since 1960, net migration from the villages to the cities has decreased, from about 52,000 that year to 20,814 in 1986. Since 1989, Hungary has received nearly 155,000 refugees, with major influxes from Romania in 1988–89 and the former Yugoslavia in 1991–92. About 5,400 asylum-seekers have been recognized as refugees since 1989. Nearly 2,400 asylum-seekers were in Hungarian refugee reception centers, including some 200 recognized refugees, in 1999. In the 1990s Hungary provided temporary protection for over 32,000 Bosnians. Most of these refugees have resettled to another country or repatriated. The Temporary Protection status of some 480 Bosnian refugees, who remained in Hungary in the latter part of the 1990s, was withdrawn by the government in mid-1999. As a result of the Kosovo crisis, 2,800 Yugoslav asylum-seekers arrived in Hungary, including 1,000 Kosovo Albanians. The organized voluntary repatriation of refugees began in August 1999, when the first 185 Kosovars returned to their homeland. In 1999, the net migration rate was 0.5 migrants per 1,000 population.

## **8**ETHNIC GROUPS

Ethnically, Hungary is essentially a homogeneous state of Magyar extraction. Estimates indicate that Hungarians constitute about 90% of the total population; others include Roma (Gypsies, 4%), Germans (3%), Serbs (2%), Slovaks, and Romanians.

## **9**LANGUAGES

Hungarian, also known as Magyar, is the universal language. In addition to the letters of the English alphabet, it has the following letters and combinations: *á, é, í, ó, ö, ő, ú, ű, cs, dz, dzs, gy, ly, ny, sz, ty, zs*. Written in Latin characters, Hungarian (Magyar) belongs to the Finno-Ugric family, a branch of the Ural-Altai language group. Hungarian (Magyar) is also characterized by an admixture of Turkish, Slavic, German, Latin, and French words. In addition to their native language, many Hungarians speak English, German, French, or (since World War II) Russian. In 2002, 98.2% of the population spoke Hungarian; 1.8% spoke various other languages.

## **10**RELIGIONS

According to independent surveys in 1996 and 1997, only about 15% of the population are actively practicing within an organized faith. However, according to traditional estimates, approximately 68% of the people are nominally Roman Catholic, 21% are members of the Reformed Church, 4% of the population are Lutheran, and less than 1% are Jewish. The remainder are divided between denominations which include the Congregation of Faith (a Hungarian evangelical Christian movement), five Orthodox Christian denominations, seven Buddhist groups and two Islamic communities.

About one million Jews lived in Hungary before World War II, and an estimated 600,000 were deported in 1944 to concentration camps. According to estimates from the World Jewish Restitution Organization, there are between 70,000 and 110,000 Jews currently residing in Hungary. There are also 9 Buddhist and 7 Orthodox denominations, an Islamic community of about 800 and an additional 800 Muslims in the country's refugee camps. Laws passed in 1990 provide for separation of church and state and safeguard the liberty of conscience of all citizens and the freedom of religious worship. However, the state does grant financial support to religious denominations for religious practice, educational work, and maintenance of public collections. To promote further support of religious institutions, in June 1997 the government signed separate agreements with the country's four largest churches: the Roman Catholic, Jewish, Lutheran, and Calvinist churches. The government also provides funds each year for the revitalization of churches based on annual negotiations between the Ministry of Cultural Heritage and the Ministry of Finance. According to the Ministry of Cultural Heritage, in 1999 the state allocated \$12.8 million for the maintenance and reconstruction of listed monuments, churches, and religious public collections.

## **11**TRANSPORTATION

Transportation facilities have improved steadily since the 1960s. Budapest is the transportation center. In 2002, roads totaled an estimated 188,203 km (116,949 mi), of which some 81,680 km (50,756 mi) were paved, including 448 km (278 mi) of expressways. In 2000, Hungary had 1,890,500 passenger cars and 303,500 trucks, buses, and taxis.

As of 2002, Hungary had 7,869 km (4,890 mi) of railroad track. Most freight is carried by trucks; railway transport is of lesser importance. The railroad and bus networks are state owned.

Permanently navigable waterways totaled 1,373 km (853 mi) in 2001, of which the Danube and Tisza rivers made up over half. In addition to the government shipping enterprises—which operate the best and largest ships and handle the bulk of water traffic—the Shipping Cooperative, an association of small operators, continues to function. In 1999, the merchant marine fleet consisted of 2 cargo ships with a total capacity of 12,949 GRT.

Hungary had 43 airports in 2001, 16 of which had paved runways. Ferihegy Airport in Budapest is the most important center for domestic and international flights. All domestic traffic is handled by the Hungarian Air Transportation Enterprise (Magyar Légiközlekedési Vállalat- MALÉV). In 2001, 2,074,700 passengers were carried on scheduled domestic and international airline flights.

## **12**HISTORY

Ancient human footprints, tools, and a skull found at Vérteszöllös date the earliest occupants of present Hungary at a period from 250,000 to 500,000 years ago. Close to that site, at Tata, objects used for aesthetic or ceremonial purposes have been



LOCATION: 45°48' to 48°35' N; 16°5' to 22°58' E. BOUNDARY LENGTHS: Slovakia, 515 kilometers (320 miles); Ukraine, 103 kilometers (64 miles); Romania, 443 kilometers (275 miles); Serbia and Montenegro, 151 kilometers (94 miles); Croatia, 329 kilometers (204 miles); Slovenia, 102 kilometers (63 miles); Austria, 366 kilometers (227 miles).

discovered, among the earliest such finds made anywhere in the world.

Celtic tribes settled in Hungary before the Romans came to occupy the western part of the country, which they called Pannonia and which the Roman Emperor Augustus conquered in 9 BC. Invasions by the Huns, the Goths, and later the Langobards had little lasting effect, but the two subsequent migrations of the Avars (who ruled for 250 years and, like the Huns, established a khanate in the Hungarian plain) left a more lasting impression.

The Magyars (Hungarians) migrated from the plains south and west of the Ural Mountains and invaded the Carpathian Basin under the leadership of Árpád in AD 896. For half a century they ranged far and wide, until their defeat by Otto the Great, king of Germany and Holy Roman emperor, near Augsburg in 955. They were converted to Christianity under King Stephen I (r.1001–1038), who was canonized in 1083. The Holy Crown of St. Stephen became the national symbol, and a constitution was gradually developed. The Magna Carta of Hungary, known as the Golden Bull of 1222, gave the nation a basic framework of national liberties to which every subsequent Hungarian monarch had to swear fidelity. Hungary was invaded at various times during the medieval period; the Mongols succeeded in devastating the country in 1241–42.

Medieval Hungary achieved its greatest heights under the Angevin rulers Charles Robert and Louis the Great (r.1342–82), when Hungarian mines yielded five times as much gold as those of any other European state. Sigismund of Luxembourg, king of Hungary, became Holy Roman emperor in 1410, largely on the strength of this national treasure. During the 15th century, however, Turkish armies began to threaten Hungary. The Balkan principalities to the south and southeast of Hungary developed as buffer states, but they did not long delay the advance of the Turks; nor could the victories of János Hunyadi, brilliant as they were, ultimately stem the Turkish tide. With the Turks temporarily at bay, the Hungarian renaissance flourished during the reign of Hunyadi's son, Matthias Corvinus (1458–90), but his successors in the 16th century overexploited the gold mines, brutally suppressed a peasant revolt, and allowed the Magyar army to deteriorate. Hungary's golden age ended with the rout by the Turks at Mohács in 1526.

Thereafter, warring factions split Hungary, but power was gradually consolidated by the Habsburg kings of Austria. With the defeat of the Turks at Vienna in 1683, Turkish power waned and that of the Habsburgs became stronger. The Hungarians mounted many unsuccessful uprisings against the Habsburgs, the most important insurrectionist leaders being the Báthorys,

Bocskai, Bethlen, and the Rákóczy. In 1713, however, the Hungarian Diet accepted the Pragmatic Sanction, which in guaranteeing the continuing integrity of Habsburg territories, bound Hungary to Austria.

During the first half of the 19th century, in the aftermath of the French Revolution and the Napoleonic wars, Hungary experienced an upsurge of Magyar nationalism, accompanied by a burst of literary creativity. The inability of a liberal reform movement to establish a constitutional monarchy led to the revolt of 1848, directed by Lajos Kossuth and Ferenc Deák, which established a short-lived Hungarian republic. Although Hungarian autonomy was abolished as a result of intervention by Austrian and Russian armies, Austria, weakened by its war with Prussia, was obliged to give in to Magyar national aspirations. The Compromise (*Ausgleich*) of 1867 established a dual monarchy of Austria and Hungary and permitted a degree of self-government for the Magyars.

After World War I, in which Austria-Hungary was defeated, the dual monarchy collapsed, and a democratic republic was established under Count Mihály Károlyi. This was supplanted in March 1919 by a Communist regime led by Béla Kun, but Romanian troops invaded Hungary and helped suppress it. In 1920, Hungary became a kingdom without a king; for the next 25 years, Adm. Miklós von Nagybánya Horthy served as regent. The Treaty of Trianon in 1920 formally freed the non-Magyar nationalities from Hungarian rule but also left significant numbers of Magyars in Romania and elsewhere beyond Hungary's borders. The fundamental policy of interwar Hungary was to recover the "lost" territories, and in the hope of achieving that end, Hungary formed alliances with the Axis powers and sided with them during World War II. Hungary temporarily regained territories from Czechoslovakia, Romania, and Yugoslavia. In March 1944, the German army occupied Hungary, but Soviet troops invaded the country later that year and liberated it by April 1945.

In 1946, a republican constitution was promulgated, and a coalition government (with Communist participation) was established. Under the terms of the peace treaty of 1947, Hungary was forced to give up all territories acquired after 1937. The Hungarian Workers (Communist) Party seized power in 1948 and adopted a constitution (on the Soviet model) in 1949. Hungarian foreign trade was oriented toward the Soviet bloc, industry was nationalized and greatly expanded, and collectivization of land was pressed. Resentment of continued Soviet influence over Hungarian affairs was one element in the popular uprising of October 1956, which after a few days' success—during which Hungary briefly withdrew from the Warsaw Treaty Organization—was summarily put down by Soviet military force. Many people fled the country, and many others were executed. From that time on, Hungary was a firm ally of the USSR. In 1968, the New Economic Mechanism was introduced in order to make the economy more competitive and open to market forces; reform measures beginning in 1979 further encouraged private enterprise. The movement toward relaxation of tensions in Europe in the 1970s was reflected in the improvement of Hungary's relations with Western countries, including the reestablishment of diplomatic relations with the FRG in 1973. A US-Hungarian war-claims agreement was signed that year, and on 6 January 1978 the United States returned the Hungarian coronation regalia.

The New Economic Mechanism that had been instituted in 1968 was largely abandoned, at Soviet and Comecon insistence, a decade later. This compounded the blows suffered by Hungary's economy during the energy crisis of the late 1970s, leading to a ballooning of the country's foreign indebtedness. By the late 1980s the country owed \$18 billion, the highest per capita indebtedness in Europe.

This indebtedness was the primary engine of political change. The necessity of introducing fiscal austerity was "sweetened" by the appointment of reform-minded Karóly Grosz as prime minister in 1987. Faced with continued high inflation, the government took the step the following year of forcing János Kádár out entirely, giving control of the party to Grosz. In 1989 Grosz and his supporters went even further, changing the party's name to Hungarian Socialist Party, and dismantling their nation's section of the Iron Curtain. The action that had the most far-reaching consequences, however, came in October 1989 when the state constitution was amended so as to create a multiparty political system.

Although Hungarians had been able to choose among multiple candidates for some legislative seats since as early as 1983, the foundations of a true multiparty system had been laid in 1987–88, when large numbers of discussion groups and special interest associations began to flourish. Many of these, such as the Network of Free Initiatives, the Bajscy-Zsilinszky Society, the Hungarian Democratic Forum, and the Alliance of Free Democrats, soon became true political parties. In addition, parties that had existed before the 1949 imposition of Communist rule, such as the People's Party, the Hungarian Independence Party, and the Social Democrats, began to reactivate themselves.

All of these groups, or the parties they had spawned, competed in the 1990 general election, the first major free election to be held in more than four decades. No party gained an absolute majority of seats, so a coalition government was formed, composed of the Democratic Forum, Smallholders' Party, and Christian Democrats, with Forum leader Jozsef Antall as prime minister. Arpad Goncz, of the Free Democrats, was selected as president. An important indicator of Hungary's intentions came in June 1989, when the remains of Imre Nagy, hanged for his part in the events of 1956, were reinterred with public honors; politicians and other public figures used the occasion to press further distance from Communism and the removal of Soviet troops. Another sign of public sentiment was the first commemoration in 40 years of the anniversary of the Revolution of 1848.

Under Antall Hungary pursued a vigorous program of economic transformation, with the goal of transferring 30–35% of state assets to private control by the end of 1993. Hungary's liberal investment laws and comparatively well-developed industrial infrastructure permitted the nation to become an early leader in attracting Western investors. However, there were large blocs in society, and within the Democratic Forum itself, that found the pace of transition too slow, particularly since the government did not keep to its own time schedule.

In addition to its economic demands, this radical-right contingent also has a strongly nationalist, or even xenophobic, agenda, which has tended to polarize Hungarian national politics. Approximately 10% of the Hungarian population is non-Hungarian, including large populations of Jews and Roma (Gypsies). There are also large Hungarian populations in neighboring states, particularly in Romania, all of whom had been declared dual citizens of Hungary in 1988. The appeal to "Hungarian-ness" has been touted fairly frequently, widening preexisting tensions within the dominant Democratic Forum party, and weakening their coalition in parliament. The Smallholders Party withdrew from the coalition in 1992, and in 1993 other elements were threatening to do the same.

At its January 1993 congress, the leading coalition party, the Democratic Forum, accepted the necessity of expelling its right wing, led by the populist, and openly anti-Semitic, Istvan Csurka. Csurka combined with other populists to form the Hungarian Justice and Life Party. However, this did little to help Antall's government, which continued to lose parliamentary and public support. Perhaps the greatest cause for dissatisfaction was the

continued attempts by Antall's government to control the public media, which it claimed were serving the political opposition. The Forum's viability was also hurt by Antall's illness, which in December 1993 led to his death. He was replaced by Peter Boross, formerly Minister of Internal Affairs.

The Democratic Forum's loss of popularity was vividly exposed in the parliamentary elections of May 1994, when the party, led by acting head Sandor Leszak, lost almost one-third of the seats it had controlled. In that election voters turned overwhelmingly to the Hungarian Socialist Party, giving the former Communist party an absolute majority of 54%. Voter turnout in the two-tier election was as high as 70%, leaving little doubt that Hungarian voters had repudiated the Democratic Forum and its programs of forced transition to a market economy.

Hungary's international indebtedness remained very high—the country ran a \$936 million trade deficit for the first two months of 1994 alone—obligating new prime minister Gyula Horn to continue most of the same economic reform programs which the Socialists' predecessors had begun. There was concern, however, that the Socialists' absolute majority could lead to a reversal of some of the important democratic gains of the recent past. Those concerns sharpened in July 1994, when Prime Minister Horn unilaterally appointed new heads for the state-owned radio and television, who immediately dismissed or suspended a number of conservative journalists. A vigorous debate also continued over economic policy, resulting in the resignation of key government figures, including finance minister Lajos Bokros.

On 8 January 1994 Hungary formally accepted the offer of a compromise on NATO membership. The offer involved a new defense partnership between Eastern Europe and NATO. By July 1997, NATO agreed to grant Hungary full membership (along with Poland and the Czech Republic) in the organization in 1999. In order to help them qualify to join NATO and the EU, Hungary and Romania signed a treaty on 16 September 1996 ending a centuries-old dispute between the two neighbors. The agreement ended five years of negotiations over the status of Romania's 1.6 million ethnic Hungarians. On 12 March 1999, Hungary, Poland, and the Czech Republic were formally admitted to NATO, becoming the first former Warsaw Pact nations to join the alliance. The admission to NATO occurred during NATO's bombing of Serbia, raising fears of Serbian reprisals against the ethnic Hungarians living within Yugoslavian borders. However, Hungary was obliged to allow NATO planes access to its air space during bombing raids.

Despite improvements in the economy, the position of the Socialists was undermined by dissatisfaction among those negatively affected by privatization and austerity measures, as well as by financial scandals in 1997. The Socialist government was toppled in national elections held in May 1998, and a new center-right coalition government was formed in July by Viktor Orbán, leader of the victorious Federation of Young Democrats-Hungarian Civic Party (Fidesz).

In 1997 Hungary was invited to begin negotiations leading to membership in the European Union. It was formally invited to join the body in 2002, with accession expected for 2004. In 2000, parliament elected Ferenc Madl as president.

Under Victor Orbán, Hungary experienced increasing prosperity, but also increasing social division. Fidesz is a strong supporter of ethnic Hungarians in neighboring countries. Indeed, parliament in June 2001 passed a controversial law entitling Hungarians living in Romania, Slovakia, Ukraine, Serbia, Croatia, and Slovenia to a special identity document allowing them to temporarily work, study, and claim health care in Hungary. Orbán's party was challenged in the April 2002 general elections by the Socialist Party, which chose Péter Medgyessy as its candidate for prime minister. Although Medgyessy characterized his party as patriotic, he stressed it was less extreme

than Fidesz, and supported diversity as well as traditional values of fairness and social justice. The 2002 campaign was divisive, and saw nationalists come out in force in favor of Fidesz. Although it won the largest bloc of seats in the National Assembly in the second round of voting (aligned with the Hungarian Democratic Forum), it was the Socialists in concert with the Alliance of Free Democrats that formed a coalition government with Medgyessy as prime minister. In June 2002, allegations surfaced that Medgyessy had worked as a counterintelligence officer in the secret service under the communist regime in the late 1970s and early 1980s. Medgyessy claimed he never collaborated with Moscow's KGB, but instead sought out Soviet spies attempting to disrupt Hungary's efforts to join the IMF. Upon his admission, his popularity soared.

### 13 GOVERNMENT

Hungary's present constitution remains based upon the 1949 Soviet-style constitution, with major revisions made in 1972 and 1988. The 1988 revisions mandated the end of the Communist Party's monopoly on power, removed the word People's from the name of the state, and created the post of president to replace the earlier Presidential Council.

The present system is a unitary multi-party republic, with a parliamentary government. There is one legislative house (the National Assembly), with 386 members who are elected to four-year terms. The head of state is the president, who is elected by the parliament, for a five-year term. In 2003, the president was Ferenc Madl, a former law professor, who replaced Arpad Goncz in 2000.

The head of the government is the prime minister, leader of the largest party seated in the Parliament. In the Antall government important ministerial and other posts were split among representatives of various parties. As of 2003, the prime minister was Péter Medgyessy, leader of the Hungarian Socialist Party (MSZP), elected by the National Assembly on the recommendation of the president in May 2002.

### 14 POLITICAL PARTIES

Following the general elections of April 2002, four political parties are represented in the 386-member National Assembly, split into two coalitions. This situation has raised fears that Hungary is drifting into a two-party state, divided by ideology and personalities, instead of reflecting other interests not represented in government.

The predominant party is the Hungarian Socialist Party (MSZP), whose government was toppled in 1998, but returned to power in 2002. Its leader is Péter Medgyessy, who as of 2003 was prime minister. It has 178 seats in the National Assembly. The MSZP is the Hungarian Communist Party renamed and, to a certain extent, reoriented. The party's platform indicates strong support for the market economy system, albeit with a wide net of social services. It supports diversity in Hungarian society, as opposed to the center-right's more populist, nationalistic party Fidesz.

The leading opposition party is the Federation of Young Democrats-Hungarian Civic Party (also known as Fidesz), which holds 164 seats. The party's leader, Viktor Orbán, was named prime minister in 1998; he was out of office in 2002 when the Socialists came to power. Originally known as the Federation of Young Democrats, the party was formed on an anti-Communist platform by student activists and young professionals in 1988. During the 1990s, it evolved into a mainstream center-right party and was renamed in 1995.

The Alliance of Free Democrats (SzDSz), which holds 20 seats, is the coalition partner of the MSZP. This party was a liberal opposition party during the Antall government, with positions strongly in favor of closer integration with Europe, cooperation with Hungary's neighbors, and support for alien Hungarians. In

economic terms their platform is very similar to that of the MSZP, which was the basis of their agreement to enter into a coalition.

The Hungarian Democratic Forum (MDF), which has been reduced to 24 seats, is a party of strong support for the ethnic minorities within Hungary. It is currently aligned with Fidesz. The Hungarian Justice and Life Party (MIEP) first gained parliamentary representation in 1998, winning 14 seats, and was founded by Istvan Csurka, who was expelled from the MDF for his nationalist and anti-Semitic sentiments. The party is populist in orientation, seeking to elevate “Hungarian values.” It won 4.4% of the vote in 2002 but held no seats.

The Independent Smallholders’ Party (FKgP), which held 48 seats in the 1998 government but no seats in the government formed in 2002, is a center-right party that seeks to ensure Hungarian interests in the context of European integration. It draws particular support from rural districts and among farmers.

Other parties include the centrist Center Party and the communist Worker’s Party. Hungary also has a noticeable “skinhead” movement, which has provoked fights and other disturbances, especially with Gypsies.

## 15 LOCAL GOVERNMENT

Hungary is divided administratively into 19 counties, 20 urban counties, and the capital city of Budapest also has county status. At the local and regional level, legislative authority is vested in county, town, borough, and town precinct councils whose members are directly elected for four-year terms. Members of the county councils are elected by members of the lower-level councils. Hungary also has provisions for minority self-government, which is not based territorially, because minorities live dispersed throughout the country. Municipality councils must seek the approval of minority self-governments for matters affecting minority education and culture, among others.

## 16 JUDICIAL SYSTEM

Cases in the first instance usually come before provincial city courts or Budapest district courts. Appeals can be submitted to county courts or the Budapest Metropolitan Court. The Supreme Court is basically a court of appeal, although it may also hear important cases in the first instance. As of 2003, a new intermediate court of appeal was to be established between county courts and the Supreme Court, designed to alleviate the backlog of court cases.

The president of the Supreme Court is elected by the National Assembly. A National Judicial Council nominates judicial appointees other than those of the Constitutional Court.

A Constitutional Court reviews the constitutionality of laws and statutes as well as compliance of these laws with international treaties the government has ratified. The 11 members of the Constitutional Court are elected by parliament for nine-year terms; their mandates may be renewed in theory, but as of 2002, this had not happened in practice.

## 17 ARMED FORCES

In 2002, Hungary had a total of 33,400 active personnel in its armed forces, including an army of 23,600 and an air force of 7,700 equipped with 37 combat aircraft. There is a small army maritime wing with 270 personnel operating 50 river craft to patrol the Danube River. Paramilitary forces, consisting of frontier and border guards, under the direction of the Ministry of the Interior, number about 14,000. There are about 90,300 military reservists. The defense budget was estimated at \$1.08 billion in 2002, or 1.8% of GDP. Hungary provides UN observers and peacekeepers to seven regions.

## 18 INTERNATIONAL COOPERATION

Hungary has been a member of the UN since 14 December 1955 and participates in ECE and all the non-regional specialized agencies except the IFAD; the nation became a member of the IBRD and IMF in 1982. Hungary became an associate member of the EU in 1994, a member of the OECD in 1996, and a NATO member in 1999. Hungary is also a member of the WTO and a signatory of the Law of the Sea. In 1997, Hungary was among the first Eastern European countries invited to begin negotiations on full membership in the EU; it was formally invited to join the body in 2002, and Hungary’s accession (one of 10 new countries) was expected in 2004.

## 19 ECONOMY

Before World War II, industrial growth was slow because adequate capital was lacking. Since 1949, however, industry has expanded rapidly, and it now contributes a larger share than agriculture to the national income. The government has no capital investments abroad, but it participates in limited economic activities in developing countries. Substantial industrial growth continued through the 1960s and mid-1970s, but output in the socialized sector declined during 1979–80, and growth was sluggish in the 1980s.

After the fall of Communism in 1989, Hungary began a painful transition to a market economy. Between 1990 and 1992, GDP dropped by about 20%. Freed to reach their own level, consumer prices rose 162% between 1989 and 1993. The rate of unemployment was 12.2% at the end of 1992. By late 1998, private-sector output was over 85% of the GDP.

By 1994, Hungary was in an economic slump unknown since the reforms toward capitalism began. Export earnings were down, inflation was on the rise, and Hungary’s gross debt rose to about \$31.6 billion in mid-1995 (the highest per capita foreign debt in Europe). The IMF directed the government to curb social spending, but restricting social welfare during a period of high unemployment was unpopular with voters. The government began a stabilization plan in March 1995 designed to decrease the budget deficit by Ft170 billion (3–4% of the GDP) and to decrease the current account deficit to \$2.5 billion from the record high of \$4 billion in 1994. The government cut expenditures, increased its revenues, devalued the forint by 9%, introduced a crawling peg exchange rate policy, added an 8% surcharge on imports, and called for wage controls at state-owned companies. As a result of the program, inflation and GDP growth rose. In addition, the black market economy was estimated to be as much as 30% of GDP.

In the years since its implementation, the stabilization program has borne fruit. By 1999, the IMF assistance had been repaid. The Hungarian economy exhibited strong growth rates with GDP increases of 4.6% and 5.1% in 1997 and 1998, respectively. Although a hard winter and the Kosovo conflict appeared to hamper Hungarian efforts to match the prior years’ growth rate levels, the economy performed well in 2000, led by an increase in foreign direct investment. Since then, manufacturing output and productivity increased, and export industries did well, although increases in wages and a rapid appreciation of the forint in 2002 moderated export growth. The global economic downturn that began in 2001 had an impact on the Hungarian economy, as GDP rose by 3.3% in the first half of 2002, down from 6.6% in the first half of 2000. Although this growth rate was higher than most European nations in 2002, it was below the rate needed for Hungary to reach the wealth levels of EU countries.

Due to government efforts at privatization, over 80% of the economy was privately owned by 2001, and Hungary stands as a model for countries undergoing market reforms. In December 2002, Hungary was formally invited to join the EU, with

accession planned for May 2004. It was regarded as one of the most advanced of the 10 candidate countries slated for accession.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Hungary's gross domestic product (GDP) was estimated at \$134.7 billion. The per capita GDP was estimated at \$13,300. The annual growth rate of GDP was estimated at 3.2%. The average inflation rate in 2002 was 5.3%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 4% of GDP, industry 34%, and services 62%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$54 million or about \$5 per capita and accounted for approximately 0.1% of GDP. Worker remittances in 2001 totaled \$50.87 million. Foreign aid receipts amounted to about \$41 per capita and accounted for approximately 1% of the gross national income (GNI).

The World Bank reports that in 2000 per capita household consumption (in constant 1995 US dollars) was \$3,261. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 3%. Approximately 25% of household consumption was spent on food, 17% on fuel, 6% on health care, and 20% on education. The richest 10% of the population accounted for approximately 20.5% of household consumption and the poorest 10% approximately 4.1%. It was estimated that in 1993 about 9% of the population had incomes below the poverty line.

## 21 LABOR

Of the total employment of 3,697,700 in 1998, 24.7% were in manufacturing; 7.5% in agriculture, 12.8% in trade; 8.2% in transportation; 6.2% in construction; and the remainder in other branches of the economy, including administration, health, and education. In 2002, the estimated unemployment rate stood at 5.8%.

Before World War II, trade unions had not developed substantially; their combined membership was only about 100,000, principally craftsmen. After the war, the government reduced the number of the traditional craft unions, organized them along industrial lines, and placed them under Communist Party control. The Central Council of Hungarian Trade Unions (SZOT) held a monopoly over labor interests for over 40 years. Since wages, benefits, and other aspects of employment were state-controlled, the SZOT acted as a social service agency, but was dissolved in 1990 with the shift away from centralization to democracy. The National Federation of Trade Unions is its successor, with 735,000 members in 1999. There are now several other large labor organizations in Hungary, including the Democratic League of Independent Trade Unions, with some 100,000 members, and the Federation of Workers' Councils, with 56,000 members. Labor disputes are usually resolved by conciliation boards; appeal may be made to courts. Since 1991, most unions have been hesitant to strike, preferring instead to act as a buffer between workers and the negative side effects of economic reform. Collective bargaining is permitted but is not widespread.

The eight-hour day, adopted in several industries before World War II, is now widespread. The five-day week is typical, but many Hungarians have second or third jobs. The law prohibits employment for children under the age of 15 and closely regulates child labor. The minimum wage in 2002 was \$140 per month which was not sufficient to provide a decent lifestyle for a family. Most workers earn more than this amount. Health and

safety conditions in the workplace do not meet international standards, and regulations are not enforced due to limited resources.

## 22 AGRICULTURE

In 1998, 52% of the land (4,820,000 ha/11,910,000 acres) was arable. More than half of Hungary's area lies in the Great Plain; although the soil is fertile, most of the region lacks adequate rainfall and is prone to droughts, requiring extensive irrigation. In 1997, some 210,000 hectares (519,000 acres) of land were irrigated. In 2001, agriculture contributed 4% to GDP.

Before World War II (1939–45), Hungary was a country of large landed estates and landless and land-poor peasants. In the land reform of 1945, about 35% of the land area was distributed, 1.9 million hectares (4.7 million acres) among 640,000 families and 1.3 million hectares (3.2 million acres) in state farms. In 1949, the government adopted a policy of collectivization based on the Soviet kolkhoz, and by the end of 1952, 5,110 collectives, many forcibly organized, controlled 22.6% of total arable land. Peasant resentment led to a policy change in 1953, and many collectives were dissolved, but the regime returned to its previous policy in 1955. As a result of the 1956 uprising, collectives were again dissolved; but a new collectivization drive begun in 1959 was essentially completed by 1961. Meanwhile, the proportion of the economically active population employed in agriculture decreased steadily. In 1949, agricultural employees accounted for 55.1% of the total labor force; in 1999, agriculture accounted for 11.1% of the engaged labor force. In 2001, Hungary had an agricultural trade surplus of \$1.3 billion.

Hungary has achieved self sufficiency in temperate zone crops, and exports about one-third of all produce, especially fruit and preserved vegetables. The traditional agricultural crops have been cereals, with wheat, corn (maize), and rye grown on more than half the total sown area. In recent years, considerable progress has been made in industrial crops, especially oilseeds and sugar beets. Fruit production (especially for preserves) and viticulture are also significant; the wine output in 1999 was 434,000 tons. That year, over 720,000 tons of grapes were produced on 99,000 hectares (245,000 acres).

The principal field crop harvest 1999 was, in tons per hectares (acres) harvested: corn, 7,109,000 per 1,120,000 ha (2,767,000 ac); wheat, 2,637,000 per 734,000 ha (1,814,000 ac); sugar beets, 2,901,000 per 66,000 ha (163,000 ac); potatoes, 1,035,000 per 56,000 ha (138,000 ac); rye, 81,000 per 39,000 ha (96,000 ac).

## 23 ANIMAL HUSBANDRY

Although animal husbandry is second only to cereal cultivation in agricultural production, the number and quality of animals are much lower than in neighboring countries. An inadequate supply of fodder is one of the chief deficiencies. At the end of 2001 there were 4,834,000 hogs, 1,129,000 sheep, 805,000 head of cattle, and 74,000 horses; poultry numbered 31,000,000. The 2001 output of livestock products was 1,136,000 tons (live weight) of meat, 2,143,000 tons of milk, and 3,900 tons of wool; egg production was 182,000 tons.

## 24 FISHING

Fishing was unimportant before World War II (1939–45), but production has increased in recent years. The best fishing areas are the Danube and Tisza rivers, Lake Balaton, and various artificial ponds. The catch is composed mainly of carp, catfish, eel, and perch. The 2000 catch was 7,101 tons.

## 25 FORESTRY

Forests totaled 1,840,000 hectares (4,547,000 acres), or 19.9% of Hungary's total land area, in 2000. The forest consists of the following main species: oak, 23%; black locust, 20%; pine and

fir, 15%; Austrian and turkey oak, 11%; poplars, 9%; beech, 6%; hornbeam (blue beech), 6%; and others, 10%. Because of the relatively small forest area and the high rate of exploitation, Hungary traditionally has had to import timber. During the 1960s, a systematic reforestation program began. Reforestation affected about 440,000 hectares (1,087,000 acres) during 1960–68 but only about 65,000 hectares (161,000 acres) in 1970–74 and 64,322 hectares (158,942 acres) during 1975–81. From 1990–2000, some 136,000 hectares (336,000 acres) were annually reforested.

Roundwood production has remained stagnant in recent years, at 5,902,000 cu m (208 million cu ft) in 2000. Less than 12% of the production is softwood; Hungary's wood imports consist mostly of softwood, while exports are based on hardwood products. Production of wood products in 2000 (in thousands of cu m) included: sawn wood, 291; particleboard, 484; hardboard, 61; and veneer sheets, 14.

Privatization of agricultural land, including forests, finished in 1996. According to estimates from the Ministry of Agriculture's Forestry Office, 55% of forests were under state control, 44.5% were owned by private individuals, and 0.5% belonged to municipalities.

## 26 MINING

In 2002, mining and the production of construction materials ranked first and third among Hungary's industries. Hungary produced modest amounts of fossil fuels and industrial minerals, cement and coal being the dominant components of industrial minerals and mineral fuels. Although crude raw material exports rose by 16.2% in 2000, and contributed 1.9% of export revenues in 2001, the country relied heavily on imported mineral raw materials—the combined value of imports of raw materials and fuels exceeded that of exports almost threefold. The GDP grew by 5.5% in 2000, while the value of output by the mining and processing sector declined by 10%. Construction aggregates and cement continued to play an important role in Hungary's economy, especially in view of the modernization process necessary for the country's infrastructure, for which planned highway construction through 2008 would be an important element. Mineral reserves were small and generally inadequate.

Bauxite mining and refining to alumina, as well as manganese mining, remained the only metal mining and processing operations in Hungary in 2000. Production of bauxite, found in various parts of western Hungary, was 1.046 million tons in 2000, compared with 935,000 in 1999, 743,000 tons in 1997, and 1.056 million tons in 1996; annual capacity was 1.5 million tons. Total resources of bauxite were estimated to be 26 million tons, of which commercial reserves amounted to 16 million tons. Bakony Bauxitbány Kft. constituted Hungary's bauxite mining industry in 2000, with its Fenyőfo I and Halimba III underground mines and the Bicske and Obarok open pits. In 2000, Hungary also produced 15,000 tons of manganese ore concentrate (gross weight), down from 33,813 in 1996; 200,000 tons of gypsum and anhydrite; and 500,000 tons of calcined lime. In addition, Hungary produced alumina (calcined basis), bentonite, common clays, diatomite, kaolin, nitrogen, perlite, refractory materials (chamotte and chrome magnesite products), sand (common, foundry, and glass) and gravel, dimension stone, dolomite, limestone, sulfuric acid, and talc. Although Hungary no longer mined copper, past surveys of the deep-lying Reck copper ore body, in the Matra mountains, discovered 172–175 million tons of copper ore at a grade of 1.12% copper and about 20 million tons of polymetallic ore at a grade of 4.22% lead and 0.92% zinc as well as smaller quantities of gold, molybdenum, and silver. After failing to attract foreign investment, the exploration shaft and adit at Reck was closed, the equipment removed, and the facilities flooded in 1999. Exploration for gold in the Reck region continued in 2000, as 35 million tons of gold-bearing

enargite copper ore was delineated with a grade of 1.47 grams per ton of gold.

## 27 ENERGY AND POWER

All natural sources of power are state property, and all electric power plants are under state supervision. In 2001, installed capacity was 8.3 million kW. Electricity production in 2000 totaled 33,400 kWh, of which 58.8% came from fossil fuels and 40.3% came from nuclear power, while hydropower and other sources respectively accounted for less than 1%. By the end of 1963, all villages were connected with electric power. Major power plants are the oil-fueled Danube Thermal Power Plant at Százhalombatta (1,850 MW); the Tisza Thermal Power Plant at Tiszaújváros (840 MW); and the Gagarin Power Plant at Visonta (800 MW) near Mt. Kékes, which uses lignite from an open-pit mine. The first Hungarian nuclear power plant, at Pécs, consisting of four Soviet-designed reactors, began production in 1982. As of 2002, modernization was planned to extend the operating life of the reactors, which would end between 2021 and 2017, by 20 years. In April 2003 there was a radioactive gas leak at the plant caused by damage to two fuel rods in one of the units. The leak reportedly caused no threat to the environment, but could result in financial losses to the plant's owners.

Production of coal has declined since the late 1980s, as use of oil and natural gas energy sources has grown. Coal production in 2001 was 16 million tons, compared with 22.4 million tons in 1989. Brown coal, mined near Doro and Gyöngyös, accounted for most of the country's production. Production of oil increased from 1,036,000 tons in 1959 to 1,920,000 tons in 1994; the government continues to sponsor oil exploration. In 2001, crude oil production was 27,000 barrels per day. Natural gas production totaled 3.4 billion cu m in 2000. Uranium, discovered in 1953 near Pécs, is expected to supply its nuclear station until 2020.

Increased energy production has not kept up with consumption, and reliance on foreign power sources has been increasing. In 2001 Hungary consumed about 146,000 barrels per day of oil (compared with production of 27,000 barrels). Most oil imports come from Russia. Beginning in 1962, direct links were established between the power systems of Hungary and neighboring countries; the most important transmission line connects Vinnitsa in the Ukraine with Albertirsa in Hungary.

## 28 INDUSTRY

Hungary is poor in the natural resources essential for heavy industry and relies strongly on imported raw materials. Industry, only partially developed before World War II, has expanded rapidly since 1948 and provides the bulk of exports. Industrial plants were nationalized by 1949, and the socialized sector accounted for about 98.5% of gross production in 1985.

Hungary has concentrated on developing steel, machine tools, buses, diesel engines and locomotives, television sets, radios, electric light bulbs and fluorescent lamps, telecommunications equipment, refrigerators, washing machines, medical apparatus and other precision engineering equipment, pharmaceuticals, and petrochemical products. Textile and leather production has decreased in relative importance since World War II, while chemicals grew to become the leading industry in the early 1990s. Food processing, formerly the leading industry, provides a significant portion of exports; meat, poultry, grain, and wine are common export items.

In 1993, industrial production was only two-thirds of the 1985 level. In 1997, industrial output increased in the manufacture of road vehicles, consumer electronics, insulated cables, office equipment and computers, steel products, aluminum metallurgy, household chemical products and cosmetics, rubber and plastic products, and paper and pulp production. In 1992, Suzuki and Opel began producing

automobiles in Hungary, the first produced there since before World War II. Suzuki increased annual output at the Magyar Suzuki Corporation from 29,000 to 50,000 units starting in the 1995 fiscal year. Since 1990, Hungary has developed industrial strength in the automotive field as well as an expanding automotive sourcing industry in plastics and electronics. In 2001, Hungary produced 144,313 automobiles, a 5% increase over 2000. In 2000, it produced 1,621 heavy trucks, a 24% increase over 1999. In 2000, close to 14% of total Hungarian industrial output was accounted for by the vehicle manufacturing industry.

The growth in manufacturing output and productivity in the early 2000s has been supported by a considerable amount of foreign investment. Successive Hungarian governments have pursued privatization policies and policies to restructure industry, so that by 2002, 80% of the economy was privately owned. High-tech equipment (computers, telecommunication equipment, and household appliances) showed the strongest industrial growth in 2001. Industries targeted for growth in 2003 were the automotive industry, the general industrial and machine tool industry, and the information technology industry. Housing construction was another growth sector in 2002.

### 29 SCIENCE AND TECHNOLOGY

In 1987-97, 1,099 technicians and 510 scientists and engineers per million people were engaged in research and development. Total expenditures on research and development during that period amounted to 0.7% of GDP. In 1998, high-tech exports were valued at \$3.9 billion and accounted for 21% of manufactured exports. Among major scientific organizations are the Hungarian Academy of Sciences (founded in 1825), the Association for Dissemination of Sciences (founded in 1841), and the Federation of Technical and Scientific Societies (founded in 1948), with 32 agricultural, medical, scientific, and technical member societies. In 1996, Hungary had 45 research institutes concerned with agriculture and veterinary science, medicine, natural sciences, and technology. There are 25 universities and colleges offering courses in basic and applied science. In 1987-97, science and engineering students accounted for 32% of university enrollment. In addition to the National Museum of Science and Technology, Budapest has museums devoted to transport, electrical engineering, agriculture, natural history, and foundries.

### 30 DOMESTIC TRADE

Budapest is the business and trade center of the country, though most production facilities lie elsewhere. Over the past few years, the retail and wholesale sector has grown along Western standards. Throughout most of the country, small, family-owned and operated retail establishments predominate. However, in Budapest supermarkets, department stores, and indoor shopping malls have grown rapidly.

The Polus Center, the first American-style shopping mall in Central Europe, opened on the outskirts of Budapest in November 1996. West End City Center, the largest mall complex in Central Europe, was opened in Budapest in 1999. A second large mall, MOM Park, was scheduled to open in 2001. As of 2002, there were about 400 franchise operations nationwide. Several foreign chains are present. Retail purchases are still primarily cash based, though some banks are beginning to issue credit cards. A 12% value added tax (VAT) applies to food, books, hotel accommodations and utilities. A 25% VAT applies to most other good and services. Additional excise taxes (ranging from 10% to 35%) apply to some products, such as gold, coffee, wine, and automobiles.

New regulations passed in January 1997 concerning trade in food products and the operation of retail outlets focus on the reduction of black market activity, consumer protection, and harmonization with EU law. Nevertheless, the underground economy remained at around 30% in 1999.

Business hours extend from 9 or 10 AM to 4 or 5 PM for offices and general stores and to 3 or 4 PM for banks. Early closing (between noon and 1 PM) on Saturdays is widespread; Sunday closing is general. Food stores open between 6 and 8 AM and close between 7 and 9 PM weekdays; a few remain open on Sundays.

Newspapers and general, trade, and technical magazines are used for advertising; there is also broadcast and outdoor advertising. A major industrial fair, held since 1906, takes place every spring and autumn in Budapest.

### 31 FOREIGN TRADE

Hungary imports raw materials and semi-finished products and exports finished products. Within that general framework, however, the structure, volume, and direction of Hungarian foreign trade have changed perceptibly in recent years. The total trade volume expanded from HUF18.344 million (foreign exchange) in 1959 to HUF2.657 billion in 1994. In 2000, exports were estimated at \$28.1 billion (up from \$12.9 billion in 1995), while imports were estimated to be \$32.1 billion (up from \$15.4 billion in 1995).

The majority of Hungary's export market is concentrated in the manufacturing industry, including electrical machinery, motor vehicle parts, polymers, petroleum refining, telecommunications equipment, and aluminum. Manufactured goods make up 82% of all exports. Other important exports include apparel (4.4%), polymers (2.2%), and meat (2.1%).

In 2000 Hungary's imports were distributed among the following categories:

Consumer goods	12.4%
Food	2.0%
Fuels	4.8%
Industrial supplies	28.6%
Machinery	35.1%
Transportation	12.9%
Other	4.2%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	10,471	8,213	2,258
Austria	2,443	2,366	77
Italy	1,654	2,407	-753
Netherlands	1,522	708	814
United States	1,475	1,224	251
France	1,470	1,401	69
United Kingdom	1,156	1,017	139
Belgium	878	721	157
Russian Federation	455	2,589	-2,134
Japan	159	1,701	-1,542

### 32 BALANCE OF PAYMENTS

Having scrapped central planning, the Hungarian government is engaged in stabilizing the economy and taming inflation. In 1992, exports had grown by 7.4%, but recession in export markets, western European protectionism, an appreciating forint, bankruptcies of firms producing one-third of exports, and drought caused Hungarian trade to slow down. In 1994, Hungary had a current account deficit of \$4 billion, but it shrank to \$2.5 billion in 1995, and to a further \$1 billion in 2001. Export markets were weak in 2003, and were not expected to rebound until mid-2004. Strong private consumption growth was sustaining the growth of the economy in 2003, but the current account deficit was forecast at 5.4% of GDP in 2003/04.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Hungary's exports was \$31.4



billion while imports totaled \$33.9 billion resulting in a trade deficit of \$2.5 billion.

The International Monetary Fund (IMF) reports that in 2001 Hungary had exports of goods totaling \$28.1 billion and imports totaling \$30.1 billion. The services credit totaled \$7.71 billion and debit \$5.55 billion. The following table summarizes Hungary's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-1,097</b>
Balance on goods	-2,018
Balance on services	2,163
Balance on income	-1,488
Current transfers	245
<b>Capital Account</b>	<b>317</b>
<b>Financial Account</b>	<b>617</b>
Direct investment abroad	-337
Direct investment in Hungary	2,440
Portfolio investment assets	-149
Portfolio investment liabilities	1,526
Other investment assets	-3,430
Other investment liabilities	446
<b>Net Errors and Omissions</b>	<b>79</b>
<b>Reserves and Related Items</b>	<b>84</b>

### 33 BANKING AND SECURITIES

Banking was nationalized in 1948, when the National Bank of Hungary was installed as the bank of issue, with a monopoly on credit and foreign exchange operations.

Following the 1987 reform of the banking system, the National Bank retained its central position as a bank of issue and its foreign exchange monopoly, but its credit functions were transferred to commercial banks. Three new commercial banks were established: the Hungarian Credit Bank, the Commercial and Credit Bank, and the Budapest Bank. Two other commercial banks, both founded in the 1950s, are the Hungarian Foreign Trade Bank and the General Banking and Trust Co. These six banks serve the financial needs of enterprises and government operations. The main bank for the general public is the National Savings Bank; in 1987 there were also 262 savings cooperatives. The Central Corporation of Banking Companies handles state property, performs international property transactions for individuals, and deals with the liquidation of bankrupt companies. The State Development Institution manages and controls development projects. In 1987 there were also three banks with foreign participation: the Central European International Bank (66% of shares held by six foreign companies), Citibank Budapest (80% owned by Citibank New York), and Unibank (45% owned by three foreign companies). In 1991 there were 10 government owned commercial banks, 16 joint-stock owned commercial banks, 5 government owned specialized financial institutions, one offshore bank and 260 savings cooperatives. By 1997, Hungary had over 30 commercial banks, about 10 specialized financial institutions, and 260 savings cooperatives. By 1998, around 75% of all banks had been privatized and 70% of these shares had foreign owners. Upon joining the OECD in 1996, Hungary ceased its ban on the establishment of foreign branches, effective January 1998. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$9.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$24.3 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 9.8%.

In Budapest, an authentic commodity and stock exchange functioned from 1867 until 1948, when it was closed down as the country transformed into a centralized socialist economy. The

reorganization of the Hungarian securities market, after a pause of some 40 years, started at the beginning of the 1980s. The Exchange was founded eventually on 21 June 1990. The bull market on the Budapest Stock Exchange (BUX) continued during the final quarter of 1996. The BUX index closed 1996 at 4,125, up 170% compared with end-1995. The increase was the second strongest in the world, following the Venezuela market. By 7 February 1997, the BUX index had reached 5,657. By mid-2000, the index stood at over 8,800, but as of mid-2003, it had dropped to just over 8,000 amid the global recession.

### 34 INSURANCE

Before World War II, 49 private insurance companies—25 domestic and 24 foreign-conducted business activities in Hungary. All insurance was nationalized in 1949 and placed under the State Insurance Institute, a government monopoly. A new institution, Hungária Insurance Co., was founded in 1986. As of 1997, the regulatory authority was the Insurance Supervisor (allami Biztosításfelügyelet). At least 15 insurance companies were operating in Hungary in 1995. Compulsory insurance in Hungary includes third-party auto liability, workers' compensation, and liability for aircraft, watercraft, and several professions.

### 35 PUBLIC FINANCE

In recent years, the government has presented its budget bill to the National Assembly sometime during the first several months of the year, but the budget itself becomes effective on 1 January, when the fiscal year begins. It is prepared by the Ministry of Finance. Although Hungary had one of the most liberal economic regimes of the former Eastern bloc countries, its economy still suffered the growing pains of any country trying to come out of communism and privatize its industries. The last few years, however, Hungary has enjoyed a remarkable expansion, averaging annual GDP growth of 4.5% between 1996 and 2002. Inflation in that period dropped from 28% to 7%, and unemployment fell to 6%, less than most EU countries. Eighty percent of GDP is now produced by privately-owned companies. Still, Hungary's foreign debts remain large, putting a damper on the economy's otherwise spectacular performance.

The US Central Intelligence Agency (CIA) estimates that in 2000 Hungary's central government took in revenues of approximately \$13 billion and had expenditures of \$14.4 billion. Overall, the government registered a deficit of approximately \$1.4 billion. External debt totaled \$31.5 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>13,000</b>
Tax revenue	88.4%	11,492
Non-tax revenue	10.6%	1,383
Capital revenue	0.6%	72
Grants	0.4%	53
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>14,400</b>
General public services	7.3%	1,056
Defense	2.7%	389
Public order and safety	3.8%	540
Education	4.8%	698
Health	6.1%	876
Social security	32.2%	4,642
Housing and community amenities	1.5%	223
Recreation, cultural, and religious affairs	1.9%	271
Economic affairs and services	13.6%	1,955
Other expenditures	11.1%	1,601
Interest payments	14.9%	2,148

### 36 TAXATION

Direct taxes include a corporation tax levied at 18%. A local business tax, set at 2% of turnover, is deductible from the corporation's taxable income. The withholding tax on dividends paid to foreign companies is 20% unless recipients reinvest them in Hungarian companies. Dividends paid to Hungarian citizens are not taxed. However, most tax treaties with Hungary reduce the withholding tax to between 5% and 15%. Capital gains are taxed at 18%.

The progressive personal income tax schedule in Hungary has six brackets: 20% on the first increment of taxable income to about \$1,066; 22% on the next increment to about \$1,280; 31% on the next increment to \$2,132; 35% on the next increment to \$3,000; 39% on the next increment to \$4,690; and 39% on taxable income above \$4,690. Allowances can be in the form of tax deductions or tax credits. The main deduction from taxable income is 20% of annual income up to a maximum of 48,000 Florints (about \$205). The disabled can deduct annually about \$77 more. There are also partial deductions allowed for school fees, interest paid for the purchase of a house, and for donations to charity. Inheritance and gift taxes range from 11% to 15%. There is a 2% to 6% tax on the transfer of housing, and a 10% tax on the transfer of large estates. Local authorities may levy individual income and corporate taxes.

The major indirect tax in Hungary's value-added tax (VAT). The normal VAT rate is 25%, with a reduced rate of 12% for libraries, museums and other services and exemptions for many essentials. Other taxes include a stamp tax and a consumption tax imposed on cars, jewelry, gasoline, alcohol, cigarettes, and cosmetics at rates between 10% and 200%.

### 37 CUSTOMS AND DUTIES

Under Hungary's liberalized import policies, 93% of all imports do not require licenses. Under World Trade Organization (WTO) rules, import licenses on certain products from WTO states are no longer required. Under the same regulations, Hungary is required to eliminate quotas on textiles, clothing, and other industrial products by 2004. Duties for countries with most-favored-nation status stood at around 8% in 2002, but could be over 100% for selected commodities.

### 38 FOREIGN INVESTMENT

Even before the repudiation of communism, Hungary sought to enter joint ventures with Western countries. By the end of 1996, Hungary had attracted \$15 billion in foreign direct investment. Since 1989, Hungary has attracted nearly one-third of all foreign direct investment in Central Europe and Eastern Europe. In 1995–96, the government adopted a stringent economic reform program of liberalization and privatization, and by 2002, the private sector, which had been 20% of the economy in 1989, was about 80%. Hungary has five free trade zones in which corporations are treated as foreign and are exempt from custom duties and taxes.

In the period 1988 to 1990, Hungary's share of world FDI inward flows was five and a half times its share in world GDP, the sixth-largest ratio in the world. Annual foreign direct investment (FDI) inflows into Hungary reached a peak in 1995 at about \$4.5 billion, from which point they declined steadily until 2001, when there was an upswing to \$2.4 billion from \$1.6 billion in 2000. In 2002, FDI inflow fell to less than \$1.5 billion. The average FDI inflow from 1998 to 2001 was about \$2 billion a year. For the period 1998 to 2000, Hungary's share of FDI inflows was about equal to its share of world GDP. Total FDI stock, from 1989 to 2002, is estimated at about \$34 billion.

The largest single source of foreign investment has been the United States, followed by Germany, the Netherlands, Austria, the United Kingdom, and France.

Of foreign capital invested in Hungary through 2000, 50% has been in manufacturing, 15% in telecommunications, 13% in energy, 6% in banking and finance, and 10% in other areas.

FDI outflows from Hungary have averaged about \$400,000 per year and as of 2001, foreign stock held by Hungarians totaled \$2.2 billion.

### 39 ECONOMIC DEVELOPMENT

During the first 20 years after World War II, Hungary had the following economic plans: the three-year plan (1947–49) for economic reconstruction; the first five-year plan (1950–54) which aimed at rapid and forced industrialization and which was slightly modified in 1951 and by the "new course" policy of 1953; the one-year plan of 1955; the second five-year plan (1956–60), designed to further industrialization but discarded as a result of the October, 1956 uprising; the three-year plan (1958–60), which also emphasized industrialization, although it allocated greater investment for housing and certain consumer goods; and the new second five-year plan (1961–65), which provided for a 50% increase in industrial production. These were followed by the third five-year plan (1966–70); the fourth five-year plan (1971–75), with greater emphasis on modernization of industrial plants producing for export and housing construction; the fifth five-year plan (1976–80), which called for amelioration of the gap in living standards between the peasantry and the working class; the sixth five-year plan (1981–85), emphasizing investment in export industries and energy conservation and seeking to curb domestic demand; and the seventh five-year plan (1986–90), which projected growth of 15–17% in NMP, 13–16% in industrial production, and 12–14% in agriculture.

Far-reaching economic reforms, called the New Economic Mechanism (NEM), were introduced on 1 January 1968. In order to create a competitive consumers' market, some prices were no longer fixed administratively, but were to be determined by market forces. Central planning was restricted to essential materials, and managers of state enterprises were expected to plan and carry out all the tasks necessary to ensure profitable production. In the early years of the NEM, the growth rate of industrial output surpassed target figures; national income rose substantially, surpassing any previous planning periods; and productivity increased significantly in all sectors of the national economy. However, following the huge oil price increases of 1973–74, the government returned to more interventionist policies in an attempt to protect Hungary's economy from external forces. Beginning in 1979, the government introduced a program of price reform, aimed at aligning domestic with world prices; changes in wage setting, intended to encourage productivity; and decentralization of industry, including the breakup of certain large enterprises and the creation of small-scale private ones, especially in services. New measures introduced in 1985 and 1986 included the lifting of government subsidies for retail prices (which led to sharp price increases) and the imposition of management reform, including the election of managers in 80% of all enterprises. The 1991–95 economic program aimed to fully integrate Hungary into the world economy on a competitive basis. The program's main features were to accelerate privatization, control inflation, and institute measures to prepare the way for the convertibility of the forint.

Reforms slowed in 1993 and 1994, and the privatization of state firms stopped. However, privatization accelerated in 1995 as the result of new laws passed in May of that year, which made the process simpler and allowed for the rapid privatization of small firms. Some large utilities were privatized in 1995; the first wave of the electricity and gas company privatization totaled \$3.2 billion, primarily from German, Italian, and French interests. Budapest Bank, one of the country's largest banks, was sold to GE Capital Services. Hungary is now one of the few countries in Eastern Europe to have privatized major portions of

its telecommunications and energy sectors. In 1995, the government received \$4.5 billion in privatization proceeds. From the mid-1990s, a massive amount of foreign investment flowed into the country. (It stood at just under \$23.5 billion by the end of 2001, which was equivalent to about 46% of GDP.)

In 1994, the Development Assistance Committee of the OECD distributed \$68.3 million in aid to Hungary. Net concession flows from multilateral institutions that year amounted to \$132 million. With the adoption of an International Monetary Fund (IMF)-backed stabilization program in 1995, Hungary exhibited consistent GDP annual growth of 4% in the late 1990s. Moreover, Hungary has repaid its entire debt to the IMF, and was formally invited to join the EU in 2002, with accession planned for 2004.

The private sector now produces 80% of GDP. The economy was suffering from the effects of currency appreciation in 2003, and from rises in wages in 2001–02. Hungary's markets for in 2003 were weak, given the dismal state of the global economy. (Exports in 2001 reached the equivalent of some 60% of GDP, up from 30.6% in 1991.) The current account deficit was forecast at around 5.4% of GDP for 2003–04.

#### 40 SOCIAL DEVELOPMENT

A national social insurance system was relatively well advanced before World War II for the nonagricultural population. A 1972 decree of the Council of Ministers extended this system to cover virtually the entire population, including craftsmen; by 1974, 99% of the population enjoyed the benefits of social insurance. Coverage includes relief for sickness, accidents, unemployment, and old age and incapacity, and provides maternity allowances for working women, allowances for children, and payment of funeral expenses. In 1997 new legislation established a private insurance pension system which was to cover all new employees who joined the labor force. The system is funded by contributions for employees and employers, and the government. Both men and women can collect old age pensions at the age of 62 after 20 years of employment. The social insurance system also provides for disability and survivorship benefits. Medical care is provided directly to the insured through the public health service.

Women have the same legal rights as men, including inheritance and property rights. They hold a large number of the positions in teaching, medicine, and the judiciary, but generally earn less than men. Women are underrepresented in senior positions in both the private and public sectors. Sexual harassment in the workplace is commonplace, and it is not prohibited by law. Spousal abuse is a huge problem; approximately 20% of women are victimized. Sexual abuse, rape, and domestic violence are underreported due to cultural prejudice.

Minority rights are protected by law, allowing for the creation of minority local government bodies for limited self-rule. The law also preserves ethnic language rights and encourages minorities to preserve their cultural traditions. Despite these efforts, the Roma minority, which may make up as much as 9% of the population, continues to face discrimination and prejudice. There were also reports of excessive police force in certain cases, as well as pretrial detention.

#### 41 HEALTH

The Ministry of Health administers the state health service, with the counties and districts forming hospital regions. By the end of 1974, 99% of the population was covered by social insurance and enjoyed free medical services; those few not insured pay for medical and hospital care. Limited private medical practice is permitted. In 1992, the Ministry of Welfare proposed a compulsory health care scheme based on the German system, to be administered by the National Health Security Directorate. After the termination of socialism in 1989, the Hungarian health

system was largely unchanged. About 5% of clinics were privatized and health care was available to nearly all of Hungary's people. Health expenditures comprised an estimated 6.8% of the gross domestic product as of 1999.

As of 1999, there were an estimated 3.2 physicians and 8.3 hospital beds per 1,000 people. In 1993, there were 4,504 pharmacists, 4,267 dentists, and 2,695 midwives. There were 110,965 births in 1999. In 2002, Hungary's birthrate was estimated at 9 per 1,000 people. Contraceptives were used by an estimated 73% of married women (15–49) as of 2000. Average life expectancy was 71 years in 2000. Free professional assistance given to insured pregnant women and to the mothers of newborn children, maternity leave and grants, and improved hygienic conditions helped lower the infant mortality rate to 9 per 1,000 live births in 2000. As of 2000, the total fertility rate was 1.3 per woman during her childbearing years.

The country faces severe problems in maintaining an acceptable level of health care for its population. The UN considers its death rate unacceptable (13 per 1,000 in 1999). The heart disease occurrence is below the average for wealthier countries. The likelihood of death after age 65 from heart disease was 283 (male) and 283 (female) per 1,000 people during 1990–1993. The number of cardiovascular deaths in 1994 was 74,182 people. Arteriosclerosis is a major cause of death (100 per 100,000 people). Contributing factors include the incidence of cardiovascular disease, which is directly related to stress through pressures of work, together with smoking and dietary factors. Hungary has one of the highest smoking rates in Europe. Between 1986 and 1994 nearly 50% of men and 25% of women were smokers. In 1990, there were 40 reported cases of tuberculosis per 100,000 people. In 1997, children up to one year old were vaccinated against tuberculosis, 100%; diphtheria, pertussis, and tetanus, 100%; polio, 100%; and measles, 100%.

Compulsory testing for HIV has been widespread since 1988 in Hungary's attempt to stop the spread of AIDS. Hungary has resisted pressure from international agencies to switch from compulsory to voluntary testing. As of 1999, the number of people living with HIV/AIDS was estimated at 2,500 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.05 per 100 adults.

#### 42 HOUSING

Although the housing stock increased from 3,122,000 units in 1970 to 3,846,000 in 1986, construction has not kept pace with the needs of Hungary's growing and increasingly urbanized population. The construction rate for new dwellings has been greater in smaller cities and towns than in Budapest, where as of 1980, 17.3% of all housing units were built before 1900 and 56.3% before 1945. In 1990, 57% of all housing units were made of brick, 22% were adobe, 14% were panel, and 7% were concrete. According to national statistics, in 2001 there were about 4,087,000 dwelling units nationwide. About 20,320 new dwellings were completed in 2000; about 31,511 dwellings were completed or under construction in 2001. Most homes have an average of four rooms. As of 2001, about 89.8% of all dwellings were linked to public water systems; about 44.1% of dwellings were linked to public sanitation systems.

Low-income residents and other private builders generally rely on the labor of family and friends, buying the essential materials little by little; they may apply for loans if necessary to complete the dwelling. In 1990, 76% of all dwellings were owner occupied and 24% were rented.

#### 43 EDUCATION

Virtually the entire adult population is literate. For the year 2000, adult illiteracy was estimated at 0.6% (males, 0.5%; females, 0.7%). Eight years of primary and four years of secondary education are free. The state also pays the bulk of costs for higher

education. Before education was nationalized in 1948, most schools were operated by religious bodies, especially the Roman Catholic Church. The educational system is under the control of the Ministry of Education and is supervised by the local councils, which receive financial assistance from the central government. As of 1999, public expenditure on education was estimated at 4.6% of GDP.

Between 1945 and 1962, eight years of schooling for children from 6 to 14 years of age was compulsory. In 1962, compulsory education was extended for two additional years, for children from 6 to 16. In 1996, there were 507,238 pupils enrolled in elementary schools. In the same year, secondary schools enrolled 1,112,149 students. The pupil-teacher ratio at the primary level was 11 to 1 in 1999. In the same year, 90% of primary-school-age children were enrolled in school, while 87% of those eligible attended secondary school. In addition to its regular primary education, Hungary has over 100 primary schools with special music programs based on the pedagogy of the 20th-century composer Zoltan Kodály; at these "music primary schools," music receives as much emphasis as all other subjects.

Hungary has about 77 institutions of higher education, including 10 universities, nine technical schools, and colleges offering agricultural and vocational training. In 1996 tertiary institutions had a total of 194,607 students. Adult education expanded after World War II, especially through workers' schools and correspondence courses. Although there are university fees, many students are exempt from payment or pay reduced fees.

#### 44 LIBRARIES AND MUSEUMS

Hungary's National Archives were established in 1756. Heavily damaged in World War II, the collection has been reorganized; among its treasures are some 100,000 items from the period prior to the Turkish occupation (1526). Hungary's National Széchényi Library is the largest and most significant in the country. Founded in Budapest in 1802, it has more than 2.5 million books and periodicals and more than 4.5 million manuscripts, maps, prints, and microfilms. Other important libraries are the Lóránd Eötvös University Library (1,500,000 volumes) and the Library of the Hungarian Academy of Sciences (2.1 million volumes), both in Budapest; and the Central Library of the Lajos Kossuth University in Debrecen (1.27 million volumes). As of 1997, there were 3,518 regional public libraries located throughout the country.

There were over 500 museums (about 70 in Budapest) and many zoological and botanical gardens. One of the largest institutions is the Hungarian National Museum, which displays relics of prehistoric times as well as artifacts reflecting the history of Hungary from the Magyar conquest through 1849, including the Hungarian coronation regalia. A branch of the National Museum is the Hungarian Natural History Museum. Other museums, all in Budapest, include the Ethnographical Museum, the Museum of History, the Hungarian National Gallery, and the Museum of Fine Arts. Many castles and monasteries throughout the country have been converted to museums. There is also a Bela Bartok Museum, a Chinese Museum, a House of Terror museum (2002), and a Franz Liszt Memorial Museum and Research Center, all in Budapest.

#### 45 MEDIA

Budapest is the principal communications center. In 1997, there were 3 million main line telephones. A 1999 report showed an additional 1.2 million mobile cellular phones in use. Although telecommunication services in Hungary were long underdeveloped, services improved significantly during the 1990s, and investment in value-added services, such as the Internet and VSAT, grew. As of 1999 Hungary had 32 AM and 15 FM radio stations and 39 television stations. In 2000 there were 690 radios and 437 television sets for every 1,000 people in

Hungary. The same year, there were about 85 personal computers for every 1,000 people and 16 Internet service providers, who were serving about 1.2 million users in 2001.

Budapest has always been Hungary's publishing center. The following table lists circulation figures for the larger Budapest dailies as of 2002:

	AFFILIATION	CIRCULATION
<i>Népszabadság</i>	Hungarian Socialist Workers' Party (HSWP)	316,000
<i>Népszava</i>	Hungarian Trade Unions	120,000
<i>Mai Nap</i>	NA	100,000
<i>Kurir</i>	NA	80,000
<i>Magyar Hírlap</i>	Budapest Party Committee and Metropolitan Council	75,000
<i>Expressz</i>	NA	75,000
<i>Magyar Nemzet</i>	Patriotic People's Front	70,000

The constitution of Hungary provides for free speech and a free press, and the government is said generally to respect these rights. Although previously all means of communication had been government property, 1995 saw the beginning of the privatization process, with aims to put most print and broadcast media in private hands.

#### 46 ORGANIZATIONS

Hungary has 22 regional trade and professional associations. Also, there are 7,532 industrial, agricultural, and foreign trade organizations in the country. A chamber of commerce located in the capital promotes Hungary's goods and services in world markets.

The Act on Cooperatives, passed 6 January 1992, allows members of cooperatives to profit from their actions within cooperatives. As of 1992, the largest cooperatives in Hungary were: general consumer and seller cooperatives (AFESZ) with over one million members. Trade and professional associations exist representing a variety of occupations, including the steel and automotive workers, journalists, teachers, librarians, engineers, architects, and various medical professionals. Organizations promoting research and study of various medical and scientific fields also exist. Some of these are member organizations of the Federation of Hungarian Medical Societies and/or the Hungarian Academy of Sciences. The multinational scientific organization of the International Measurement Confederation is based in Budapest.

Notable national youth organizations include the Federation of Young Democrats of Hungary, the Goncol Environmental Youth Alliance, the National Union of Hungarian Students, and Young Musicians of Hungary. The Hungarian Scout Association is also active, as are various chapters of the YMCA/YWCA. National women's organizations include the Association of Hungarian Women and the National Council of Hungarian Women. The Red Cross has active chapters in the country.

#### 47 TOURISM, TRAVEL, AND RECREATION

Among Hungary's diverse tourist attractions are Turkish and Roman ruins, medieval towns and castles, more than 500 thermal springs (some with resort facilities), and Lake Balaton, the largest freshwater lake in Europe. Budapest is a major tourist attraction and cultural capital, with two opera houses and several annual arts festivals.

Popular sports include handball, football (soccer), tennis, and volleyball. The Budapest Grand Prix, the only Formula-1 motor race in Eastern Europe, was inaugurated in August 1986. A valid passport is required of all foreign visitors. Citizens of some countries (including the US, Canada, and the UK) do not need visas.

Hungary had 31,141,271 visitor arrivals in 2000. The majority of those visitors (97%) were from other European nations,

followed by citizens of the US. Tourism receipts totaled \$3.4 billion in 1997. That year there were 57,870 hotel rooms with 143,573 beds and a 47% occupancy rate.

In 2002 the US government estimated the cost of staying in Hungary at between \$93 and \$204 per day.

#### 48 FAMOUS HUNGARIANS

The foundations for modern Hungarian literature begin with the movement known as the Period of Linguistic Reform, whose leaders were the versatile writer Ferenc Kazinczy (1759–1831) and Ferencz Kölcsey (1790–1838), lyric poet and literary critic. Among the outstanding literary figures was Dániel Berzsenyi (1772–1836) of the Latin School. Károly Kisfaludy (1788–1830) founded the Hungarian national drama. Mihály Vörösmarty (1800–55), a fine poet, related the Magyar victories under Árpád in his *Flight of Zalán*. He was followed by Hungary's greatest lyric poet, Sándor Petőfi (1823–49), a national hero who stirred the Magyars in their struggle against the Habsburgs in 1848 with his *Arise Hungarians*. Another revolutionary hero was Lajos Kossuth (1802–94), orator and political author. János Arany (1817–82), epic poet and translator, influenced future generations, as did Mór Jókai (1825–1904), Hungary's greatest novelist. The outstanding dramatist Imre Madách (1823–64) is known for his *Tragedy of Man*. Endre Ady (1877–1919) was a harbinger of modern poetry and Western ideas. Lyric poets of the contemporary era include László Nagy (1925–78), János Pilinszky (1921–81), and Ferenc Juhász (b.1928). Gyula Illyés (1902–83), a poet, novelist, and dramatist, was one of the outstanding figures of 20th-century Hungarian literature. Ferenc Molnár (1878–1952) is known for his plays *Liliom*, *The Swan*, and *The Guardsman*. György Lukács (1885–1971) was an outstanding Marxist writer and literary critic. Hungarian-born Arthur Koestler (1905–83), a former radical, was a well-known anti-Communist novelist and writer.

János Fadrusz (1858–1903) and József Somogyi (1916–93) are among Hungary's best-known sculptors. The outstanding Hungarian painter Mihály Munkácsy (1844–1900) is best known for his *Christ before Pilate*. Victor Vasarely (1908–97), a world-famous painter of "op art," was born in Budapest and settled in France in 1930. Miklós Ybl (1814–91) was a leading architect; and Gyula Halasz (1899–1984), better known as Brassai, was a well-known photographer. The Hungarian-born Joseph Pulitzer (1847–1911) was a noted journalist and publisher in the US. Hungarian musicians include the composers Franz (Ferenc) Liszt (1811–86), Ernst (Ernö) von Dohnányi (1877–1960), Béla Bartók (1881–1945), and Zoltán Kodály (1882–1967), violinists Jenő Hubay (1858–1937) and Joseph Szigeti (1892–1973), and pianists Lili Kraus (1903–86) and Erwin Nyiregyhazi (1903–87). Renowned Hungarian-born conductors who became famous abroad include Fritz Reiner (1888–1963), George Széll (1897–1970), Eugene Ormándy (1899–1985), Antal Doráti (1906–88), and Ferenc Fricsay (1914–63). Miklós Jancsó (b.1921) is a distinguished film director, and Vilmos Zsigmond (b.1930) a noted cinematographer; Béla Lugosi (Blasko, 1882–1956) and Peter Lorre (Laszlo Loewenstein, 1904–64) were famous actors.

Notable scientists include Lóránd Eötvös (1848–1919), inventor of torsion balance; Ányos Jedlik (1800–95), known for his research on dynamos; and the psychoanalyst Sándor Ferenczi (1873–1933). Ignaz Philipp Semmelweis (1818–65) pioneered in the use of antiseptic methods in obstetrics. Béla Schick (1877–1967) invented the skin test to determine susceptibility to diphtheria.

Hungarian-born Nobel Prize winners are Róbert Bárány (1876–1936) in 1914, Albert Szent-Györgyi (1893–1986) in 1937, and Georg von Békésy (1899–1972) in 1961 in physiology or medicine, Georg de Hevesy (1885–1966) in 1944 in chemistry, and Dénés Gábor (1900–79) in 1971 for physics. Budapest-born scientists who contributed to atomic research in the US were Leó

Szilárd (1898–1964), Eugene Paul Wigner (1902–95), John von Neumann (1903–57), and Edward Teller (b.1908). Theodore van Karman (Todor Kármán, 1881–1963) is the father of aerodynamics.

Imre Nagy (1895?–1958) served as prime minister from 1953 to 1955, but was removed from office because of his criticism of Soviet policy; the uprising of October 1956 briefly brought Nagy back to the premiership. Arrested after the Soviet military intervention, Nagy was tried and executed in 1958. János Kádár (1912–89), first secretary of the HSWP since 1956, initially aligned himself with Nagy but subsequently headed the government established after Soviet troops rolled in. Kádár, who held the premiership from late 1956 to 1958 and again from 1961 to 1965, was the preeminent political leader in Hungary until his removal in May 1988. Gyula Horn (b.1932), a former communist, was named prime minister in 1994.

#### 49 DEPENDENCIES

Hungary has no territories or colonies.

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# ICELAND

Republic of Iceland

*Lveldi Ísland*

**CAPITAL:** Reykjavík

**FLAG:** The national flag, introduced in 1916, consists of a red cross (with an extended right horizontal), bordered in white, on a blue field.

**ANTHEM:** *O Gu vors lands (O God of Our Land)*.

**MONETARY UNIT:** The new króna (K), introduced 1 January 1981 and equivalent to 100 old krónur, is a paper currency of 100 aurar. There are coins of 5, 10, and 50 aurar and 1, 10 and 50 krónur, and notes of 10, 50, 100, 500, 1,000 and 5,000 krónur. SK1 = \$0.01319 (or \$1 = K75.8) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is used.

**HOLIDAYS:** New Year's Day, 1 January; First Day of Summer, April; Labor Day, 1 May; National Holiday, 17 June; Bank Holiday, August; Christmas, 25–26 December. Movable religious holidays include Holy Thursday, Good Friday, Easter Monday, Ascension, and Whitmonday. Half-holidays are observed on Christmas Eve, 24 December, and New Year's Eve, 31 December.

**TIME:** GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Iceland, the westernmost country of Europe, is an island in the North Atlantic Ocean, just below the Arctic Circle and a little more than 322 km (200 mi) E of Greenland, 1,038 km (645 mi) W of Norway, and 837 km (520 mi) NW of Scotland. It has an area of 103,000 sq km (39,769 sq mi), extending 490 km (304 mi) E–W and 312 km (194 mi) N–S. Comparatively, the area occupied by Iceland is slightly smaller than the state of Kentucky. The total length of coastline is about 4,988 km (3,099 mi). The republic includes many smaller islands, of which the chief are the Westman Islands (Vestmannaeyjar) off the southern coast.

Iceland's capital city, Reykjavík, is located on the country's southwest coast.

## <sup>2</sup>TOPOGRAPHY

Iceland consists mainly of a central volcanic plateau, with elevations from about 700 to 800 m (2,297–2,625 ft), ringed by mountains, the highest of which is Hvannadalshnúkur (2,119 m/6,952 ft), in the Öraefajökull glacier. Lava fields cover almost 11% of the country, and glaciers almost 12%. Among the many active volcanoes there is an average of about one eruption every five years. The largest glacier in Europe, Vatnajökull (about 8,400 sq km/3,200 sq mi), is in southeast Iceland. There are also many lakes, snowfields, hot springs, and geysers (the word “geyser” itself is of Icelandic origin). The longest river is the Thjórsá (about 230 km/143 mi) in southern Iceland. Most rivers are short and none are navigable, but because of swift currents and waterfalls, Iceland's rivers have important waterpower potential. There are strips of low arable land along the southwest coast and in the valleys. Good natural harbors are provided by fjords on the north, east, and west coasts.

## <sup>3</sup>CLIMATE

Despite Iceland's northern latitude, its climate is fairly mild because of the Gulf Stream, part of which almost encircles the island. There are no extreme temperature variations between seasons, but frequent weather changes are usual, particularly in

the south, which experiences many storms and heavy precipitation. Temperatures at Reykjavík range from an average of 11°C (52° F) in July to -1°C (30° F) in January, with an annual mean of about 5°C (41°F). Humidity is high, and there is much fog in the east. Annual rainfall in the north ranges from 30 to 70 cm (12–28 in); in the south, 127–203 cm (50–80 in); and in the mountains, up to 457 cm (180 in). Winters are long and fairly mild, summers short and cool. Summer days are long and nights short; in winter, days are short and nights long.

## <sup>4</sup>FLORA AND FAUNA

Although there are a few small trees (ash, aspen, birch, and willow), the chief forms of vegetation are grass, mosses, and small shrubs (heather, willow, dwarf birch). Some 340 different species of flowers have been listed, but most of these are sparse.

The fox, the chief indigenous animal, is common. Wild reindeer, introduced in the 18th century and once abundant, were almost exterminated and therefore have been protected in recent years; they are found chiefly in the northeastern highlands. The waters around Iceland abound in whales, many types of seals, and many kinds of fish. Dolphin, grampus, porpoise, and porqual are numerous. Cod, haddock, and herring are particularly abundant, but there are also sole, shark, halibut, redfish, saithe, and other fish. Salmon abound in many rivers and trout in rivers and lakes. There are about 88 species of breeding birds; most are aquatic. The chief resident birds are eiderduck (raised commercially for their down) and ptarmigan. Other characteristic indigenous birds are swan, eagle, falcon, and gannet, all rare now and protected. Iceland has no reptiles or frogs and very little insect life.

## <sup>5</sup>ENVIRONMENT

Because of Iceland's sparing use of hydrocarbon fuels, its air is cleaner than that of most industrialized nations. However, its water supply is polluted by excessive use of fertilizers, (current estimates put Iceland's yearly usage of fertilizers at 2,500 lbs per acre). Population increases in the cities also contribute to water pollution. Iceland has 170 cu km of renewable water resources

with 6% used for industrial purposes. The nation's cities produce about 0.1 million tons of solid waste. Industrial carbon dioxide emissions totaled 2.1 million metric tons per year in 1996. Protected lands, which account for 9.5% of Iceland's total land area, include four national parks, with a total area of 619,300 ha (1,530,315 acres) and 27 nature reserves, covering 256,861 ha (634,714 acres). Principal environmental responsibility is vested in the Ministry of Social Affairs. As of 2001, one mammal species and one plant species were endangered. Endangered species include the leatherback turtle and four species of whales. The great auk has become extinct.

## 6 POPULATION

The population of Iceland in 2003 was estimated by the United Nations at 290,000, which placed it as number 169 in population among the 193 nations of the world. In that year approximately 12% of the population was over 65 years of age, with another 23% of the population under 15 years of age. There were 101 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.79%, with the projected population for the year 2015 at 311,000. The population density in 2002 averaged 3 per sq km (7 per sq mi). Iceland is one of the least densely populated countries in the world. The interior of the country is largely uninhabited.

It was estimated by the Population Reference Bureau that 93% of the population lived in urban areas in 2001. The capital and largest city, Reykjavik, had a population of 168,000 in that year. This accounts for more than half of the nation's entire population. The next largest towns are Akureyri (14,436), on the north coast; Hafnarfjörður (15,623), about 10 km (6 mi) from Reykjavik; and Kópavogur (16,677), south of Reykjavik. According to the United Nations, the urban population growth rate for 2000–2005 was 0.9%.

## 7 MIGRATION

Little immigration has occurred since the original settlement in the 9th and 10th centuries. In the last quarter of the 19th century, because of unfavorable conditions, about 12,000 residents of Iceland emigrated to Canada and the US. After 1900, net emigration decreased substantially.

As of 1997, 375 refugees had arrived in Iceland since 1956. In recent years Iceland has not received a substantial number of refugees or asylum seekers. During the Kosovo crisis, Iceland offered to take up to 100 refugees under the UNHCR/IOM Humanitarian Evacuation Programme. A total of 70 people were actually evacuated to Iceland, 16 of whom returned to Kosovo by 1999. In 2000 the net migration rate was 0.2 migrants per 1,000 population. There were 16,000 migrants living in Iceland in that year. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

The population is almost entirely Icelandic, descended from the original settlers, who came chiefly from Norway (with a mixture of Scots and Irish) in the late 9th and early 10th centuries.

## 9 LANGUAGES

Icelandic, the national language, derives from the Old Norse language that was spoken throughout Scandinavia at the time of settlement. It has changed little through the centuries, partly because of the country's isolation and partly because of the people's familiarity with the classical language, as preserved in early historical and literary writings. There is comparatively little difference between the old language and the modern, or between the written language and the spoken. To this day, Icelanders are able to read the great 13th-century sagas without special study.

## 10 RELIGIONS

The Evangelical Lutheran Church, the national church, is endowed by the state, but there is complete freedom for all faiths, without discrimination. All Iceland constitutes a single diocese of the national church, headed by a bishop with his seat at Reykjavik; there are 281 parishes. As of 2002, about 87% are nominally members of this established church, though it is believed that most do not practice actively. About 4% belong to one of three Lutheran Free Churches: The Reykjavik Free Church, the Hafnarfjörður Free Church, or the Reykjavik Independent Church. Another 4% (about 11,471 people) belong to one of 20 different denominations that are registered and recognized by the state. The largest of these groups are the Roman Catholics (4,803 members) and the Pentecostal Church (1,630 members), Seventh-Day Adventists (725 members), and Jehovah's Witnesses, (638 members). The Buddhist Association of Iceland has about 445 members, the Baha'i Community has about 387 members, and the Muslim Association has about 178 members. Other groups are primarily Christina-based organizations. Judaism is practiced by some citizens, however, there have been no requests for official recognition from the Jewish community.

## 11 TRANSPORTATION

There are no railways or navigable inland waters. All important towns and districts can be reached by bus and truck via interurban roads. In 2002, total roadway was estimated at 12,691 km (7,886 mi), of which only 3,262 km (2,027 mi) were paved. Registered passenger cars in 2000 numbered 151,409 and there were 19,428 commercial vehicles.

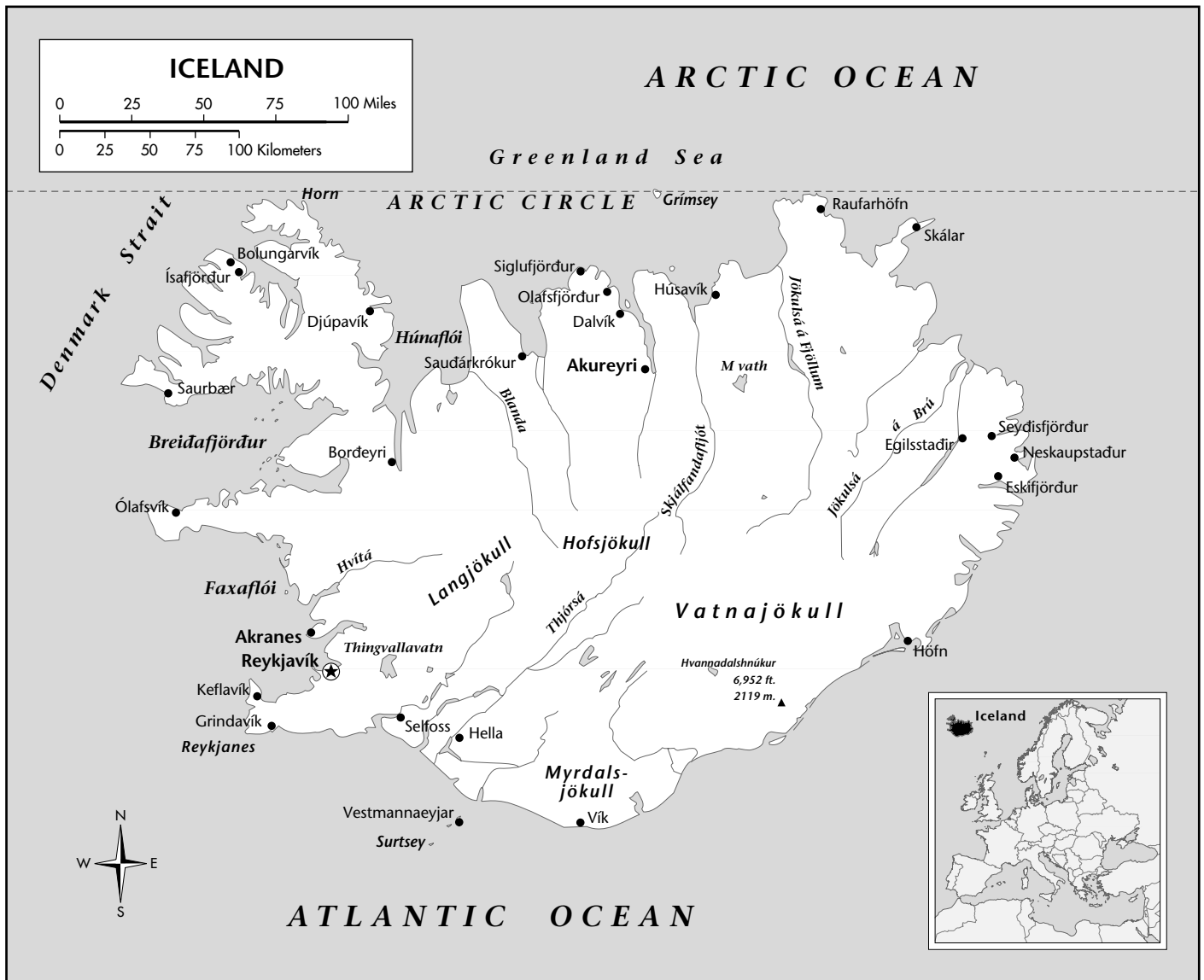
The merchant marine fleet consisted of one ship, with a total capacity of 1,816 GRT (2,500 DWT) in 2002, including one chemical tanker, one container, and one oil tanker. In addition, there are about 1,000 civilian vessels, mostly small fishing craft. Most of the import and export trade is handled in Reykjavik. Akureyri, on the north coast, is the largest port serving the outlying areas.

Iceland had 86 airports in 2001, 13 of which had paved runways. The principal airport is Keflavik at Reykjavik. In the 1950s, Icelandic Airlines was the first transatlantic airline to offer fares drastically lower than those of the major carriers. Icelandair, formed by a merger of Icelandic Airlines and Iceland Air in the early 1970s, operates domestic routes as well as international flights to the UK, Scandinavia, and FRG, and transatlantic flights with stopovers at Reykjavik. In 2001 1,357,900 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

Iceland's first known settler, Ingólfur Arnarson, sailed from his native Norway to Iceland and settled at what is now Reykjavik in 874. During the late 9th and early 10th centuries, the island was settled by other Norwegians fleeing the oppressive rule of their king and by smaller groups of Scottish and Irish emigrants. In 930, a central legislative and judicial assembly, the Althing, was established, and a uniform code of laws for the entire country was compiled. Christianity was introduced in 1000, but the memory of the old pagan religion was preserved in 12th and 13th-century Icelandic literature. Many of the early settlers were great seafarers and continued their westward voyages of discovery and exploration from Iceland. Most famous of these were Eric the Red (Eiríkur Thorvaldsson), who discovered and settled in Greenland in 982, and his son Leif Ericsson (Leifur Eiríksson), who around the year 1000 discovered the North American continent, which he called Vinland ("wineland") because of the grapes he found there. Icelanders acknowledged the sovereignty of Haakon IV of Norway in a treaty of 1262, which established a purely personal union, ending the





LOCATION: 63°19' to 67°7' 5" N; 13°16' 7" to 24°32' 3" W. BOUNDARY LENGTHS: Total coastline, 4,970 kilometers (3,090 miles). TERRITORIAL SEA LIMIT: 12 miles.

independent republic or commonwealth in Iceland. When all the Scandinavian countries came under the rule of Denmark at the end of the 14th century, Iceland became a Danish dominion. Lutheranism was introduced in the 1540s. Exclusive trading rights with Iceland were given in 1602 to a private Danish trading company. Danes had a complete monopoly of trade with Iceland until 1786, when trade was opened to all subjects of the kings of Denmark, including Icelanders.

The last decades of the 18th century were a period of economic ruin for Iceland, compounded by poor harvests, epidemics, and volcanic eruptions (notably that of 1783, the worst in Iceland's history); the population dwindled to 38,000 by 1800, less than half the number in the period of independence. In that year, the king abolished the Althing, long since reduced in power. Within a few decades, however, a nationalist movement had attained considerable strength, winning the reestablishment of the Althing (but only as an advisory body) in 1843, followed by the opening of trade with all countries in 1854. After a long constitutional struggle—led by a national hero, Jón Sigurðsson, who was both statesman and scholar—limited home rule was granted in 1874,

and almost complete home rule in 1903. By agreement with Denmark in 1918, Iceland was declared a free and independent state, but personal union with the Danish crown was retained. The Danish king continued to function as king of Iceland, and Denmark conducted Iceland's foreign affairs; but Iceland had the right to terminate this union after 25 years. Cut off from Denmark during World War II by the German occupation of that country, Iceland established diplomatic relations with the UK and the United States. British forces took over the protection of the island in 1940 and were replaced the following year by US troops that remained in Iceland until early 1947. In a referendum held in May 1944, more than 97% of those participating voted to end the union with the king of Denmark and, on 17 June 1944, Iceland became an independent republic. In 1946, it was admitted to UN membership. Three years later, Iceland became a party to the Atlantic Pact (NATO), and a bilateral defense agreement was signed in 1951 providing for a US military presence. In March 1970, Iceland joined EFTA, and a tariff agreement was ratified with the EC in February 1973. To protect its fishing industry, Iceland unilaterally extended its fishing zone in 1958, and again

in 1972 and 1975, provoking conflict with the UK and other countries. Casualties resulted from the most serious outbreak of the “cod war” with the United Kingdom in late 1975 and in February 1976. An agreement ended the conflict in June 1976 and relations with the UK improved. Disputes over fisheries resources have also arisen with the Norwegians periodically, though both Norway and Iceland are united in their opposition to the international ban on whaling.

In 1985, the parliament unanimously voted to declare Iceland a nuclear-free zone, banning any deployment of nuclear weapons. Reykjavík was the scene of the October 1986 summit meeting between US president Ronald Reagan and Soviet leader Mikhail Gorbachev on arms control and nuclear disarmament.

Depressed world fish prices weakened the economy in the early 1990s, resulting in a no-growth GDP and higher unemployment. A number of factors have combined to reinvigorate the Icelandic economy. The government launched an austerity program to trim the Icelandic welfare state which included measures such as increasing the retirement age from 65 to 67 years of age (with future increases to age 70 envisioned). Icelanders are also being asked to pay for a greater portion of social services out of their own pockets. Demand in Europe and the United States for Icelandic fish has rebounded and fish exports account for 73% of exports and 50% of foreign earnings. Liberalization of many sectors of the economy such as telecoms and banking, required under the EEA (European Economic Area) agreement with the European Union in exchange for greater access to the EU market, has reduced public expenditures and positively affected governmental finances. By 1999, Iceland had experienced four years of more than 5% GDP growth, and purchasing power was increasing at four times the OECD average. Unemployment had dropped to 2%, and Iceland has dealt with its labor shortage by initiating labor immigration from the Philippines. The economic boom years from 1996–2001 slowed in 2002, and Iceland experienced a mild recession. Growth of GDP was forecast at 2.1% in 2003 and 3.5% in 2004.

Iceland was in the international headlines at the end of 1998 for altogether different reasons. In December 1998, the Icelandic parliament agreed after two full revisions of the legislation to create a health database of medical records of all Icelanders for use by a private company seeking to decode the human genome. Iceland’s isolated, homogeneous population is a boon to medical researchers seeking to decode the genetic sequences of many hereditary diseases, but the lack of informed consent by individuals in the legislation became a heated political issue.

A public opinion poll taken in June 2002 indicated a 50–50 split between supporters and opponents of EU membership. However, conservative Independence Party leader Davíð Oddsson, prime minister since 1991, remains resolutely opposed to EU membership, stating in 2002 that Iceland’s affairs should not be dictated by conditions in “Paris or Berlin.”

Iceland rejoined the International Whaling Commission in 2002.

### 13 GOVERNMENT

Iceland is an independent republic. Executive power is vested in the president and the government, legislative power in the president and the legislative assembly (Althing). The president is elected by universal suffrage for a four-year term. Effective executive power is exercised by a prime minister enjoying the confidence of the Althing: the prime minister is appointed by the president, and the prime minister in turn selects a cabinet composed of ministers responsible to the Althing for their acts. The president must sign all legislation before it becomes law.

All citizens who have reached the age of 18 may vote, provided they have resided in Iceland for the five years immediately preceding an election. In 2003, 87.5% of Icelanders eligible to vote in the parliamentary elections did so. By a system of

proportional representation, voters elect the 63 members of the unicameral (since 1991) Althing from eight constituencies at a general election held every four years, but sooner if the governing coalition loses its ability to command a legislative majority. Because of the widely varying populations of the constituencies (Reykjavik constitutes one-third of the nation’s population), each constituency has a minimum of five seats, and more populous regions have more. Three-quarters of the seats in any constituency are divided by the parties according to proportional representation of that region, while the final quarter of the seats in each constituency are apportioned according to the national vote tally to ensure national proportional representation. Any citizen qualified to vote is eligible for to run for a seat in the Althing. When any amendment to the constitution is voted, the Althing is dissolved and new elections are held; if the new Althing accepts the proposed amendment, it becomes law when ratified by the president.

The institution of the Althing has parliamentary immunity and its members swear allegiance to the constitution. Government ministers are normally members of the Althing and enjoy full parliamentary privileges. The constitution and the rules of procedure of the Althing specify the rights and duties of parliamentarians, and the legislative year of the Althing begins on 1 October. The legislative agenda of the Althing is divided among 12 standing committees. At the first meeting following the inauguration ceremony, the president of the Althing is elected. In addition to acting as the chief executive of Althing, the president sits on the five-person presidium along with the four vice presidents. The presidium is responsible for the organization of parliamentary activities. Sessions of the Althing are normally held four days a week.

### 14 POLITICAL PARTIES

No one major party in recent years has been able to command a majority of the electorate, and coalition governments have been the rule. Principal parties include the Independence Party (Sjálfstæðisflokkurinn) (IP), a conservative grouping; the Progressive Party (Framsóknarflokkurinn) (PP), an agrarian, left-center party; the Progressive Alliance (Alhýðubandalag) (PA), a formerly Communist-oriented party, now a far-left party; and the Social Democratic People’s Party (Alhýðuflokkurinn) (SDP), a center-left group. An Independence Party splinter group, the Citizens’ Party (CP), lost its parliamentary representation by securing no seats. Iceland is unique among the Nordic states (which lead the OECD countries on all indicators of gender equality) in that it is the only one to have a women’s party, which has gained a foothold in parliament. In 1995, the Icelandic Women’s Alliance, a political party devoted to feminist issues, gained three seats in the Althing.

Of these parties, the Independence Party dates back to 1929, and the Progressive and Social Democratic People’s (formerly Labor) parties to 1916; all three have been the source of various splinter groups. The People’s Alliance became a distinct political party in 1970; it grew out of an alliance among Communist-oriented elements in the Social Democratic People’s Party and other groups, and in effect replaced the earlier People’s Union–Socialist Party (Sameiningarflokkur alhýðu-Sósíalistaflokkurinn).

It was the issue of NATO and the US military presence that in March 1956 broke up an early alliance between Progressives and Independents, and the elections that year led to a new coalition of the Progressive, Labor, and People’s Union–Socialist parties, all of which opposed the US military base on Iceland. (After the Hungarian uprising of October 1956, however, the Progressive and Labor parties reversed their stand.) That government fell because of Communist opposition to a proposed wage freeze, and after elections in October 1959, a government formed by the Independence and Labor parties came into office. This coalition endured for some time. But after the loss of four seats in the June

1971 general elections, a new government, composed of the Progressive Party, the People's Alliance, and the Liberal and Left Alliance (a party established in 1969 on a platform opposing Iceland's participation in NATO and its defense agreement with the US) came into power under Prime Minister Olafur Jóhannesson. Then, on 29 August 1974, after gains by the Independence Party in June elections, a coalition of Independents and Progressives was sworn in under Geir Hallgrímsson of the Independence Party.

Two short-lived coalition governments followed. The first, a leftist coalition including the Social Democrats, People's Alliance, and Progressive Party, led by Olafur Jóhannesson, was dissolved when the Social Democrats left the coalition in October 1979. Following an election that December, a second coalition was eventually formed from members of the Independence Party, the People's Alliance, and the Progressives, with Gunnar Thoroddsen, deputy chairman of the Independence Party, as prime minister. After three unsuccessful attempts by party leaders to form a governing coalition following the April 1983 elections, Vigdís Finnbogadóttir—who in August 1981 had been elected president, becoming the first woman to become democratically elected head of state—threatened to request the formation of a government of civil servants. Eventually, Progressive leader Steingrímur Hermannsson formed and headed a coalition of the Independence and Progressive parties. Following the 1987 elections, Thorsteinn Pálsson of the Independence Party replaced Hermannsson as prime minister.

The general election of April 1991 resulted in a new center-right coalition led by Davíð Oddsson of the Independence Party and members of the Social Democratic People's Party. Vigdís Finnbogadóttir was reelected unopposed for a fourth four-year term in June 1992. The left-right coalition of the IP and SDP was dissolved after the elections of April 1995 when Oddsson formed a new coalition government composed of the Independence Party and the Progressive Party, chaired by Halldór Ásgrímsson, Minister for Foreign Affairs and External Trade. This coalition remained in power after the 1999 elections in which the Independence Party increased its share of the popular vote while the Progressives polled more poorly. Two new parties gained representation in the Althing in 1999, the environmental Left-Green Party (Vinstrihreyfing-Grænt framboð) and the Liberal Party (Frjálslyndi Flokkurinn). Of all 63 parliamentarians, 41 were men and 22 were women. In the presidential elections of 29 June 1996, Vigdís Finnbogadóttir chose not to run and Dr. Ólafur Ragnar Grímsson won with 41.4% of the vote. In 2000, Grímsson was reappointed president, unopposed, to a second four-year term.

In the 10 May 2003 elections, the Independence Party secured 33.7% of the vote and 22 seats in parliament. The opposition Social Alliance (which now includes the People's Alliance, Social Democratic Party, and Women's List) won 31% of the vote and took 20 seats. The Progressive Party won 17.7% of the vote and 12 seats, and entered into a coalition with the Independence Party. Therefore, the Independence/Progressive coalition held a slim majority of 34 seats in parliament, compared with the 43 it held after the 1999 elections. The Left-Green Alliance secured 8.8% of the vote and 5 seats, and the Liberal Party won 7.4% and held 4 seats. Following the election, Prime Minister Oddsson stated that in 2004, Minister of Foreign Affairs Halldór Ásgrímsson would become prime minister in a new government.

## 15 LOCAL GOVERNMENT

Iceland is divided into 23 counties (*sýslur*) and 14 independent towns (*kaupstaðir*). A magistrate or sheriff (*sýslumaður*) administers each county. Within the counties are more than 200 rural municipalities, each governed by a council: town councils are elected by proportional representation, rural councils by simple majority. The local government units supervise tax

collections, police administration, local finances, employment, and other local affairs.

## 16 JUDICIAL SYSTEM

District courts are courts of first instance. There are eight district courts in Iceland, which have jurisdiction in both civil and criminal cases. Appeals are heard by the Supreme Court, consisting of nine justices (all appointed for life by the president), who elect one of their number as chief justice for a two-year term. There are special courts for maritime cases, labor disputes, and other types of cases.

The courts are free from political control. Although the Ministry of Justice administers the lower courts, the Supreme Court oversees independent and fair application of the law.

A recent reform project transferred all judicial authority for criminal and civil cases from local officials (chiefs of police) to newly established district courts. This complete separation of judicial and executive power in regional jurisdictions was completed in 1992.

## 17 ARMED FORCES

Iceland is the only NATO member with no military force of its own, although the government does maintain a coast guard with four patrol craft manned by 120 personnel. US forces (1,640) and Dutch forces (16) are stationed in Iceland.

## 18 INTERNATIONAL COOPERATION

Iceland became a member of the UN on 19 November 1946 and belongs to ECE and all the non-regional specialized agencies except UNIDO. It also belongs to the Council of Europe, EFTA, NATO, the Nordic Council, OECD, and other intergovernmental organizations. It is a signatory of the Law of the Sea and a member of the WTO.

## 19 ECONOMY

Iceland's economy, once primarily agricultural, is now based overwhelmingly on fishing. Crop raising plays a small role, since most of the land is unsuitable for cultivation and the growing season is short. Sheep raising and dairying are the chief agricultural activities, with horse breeding also substantial. Iceland is generally self-sufficient in meat, eggs, and dairy products, but sugar and cereal products must be imported. Since Iceland has almost no known mineral resources and has had no concentrations of population until recent decades, industry is small-scale and local, depends heavily on imported raw and semimanufactured materials, and cannot compete favorably with foreign industry, especially with imports from low-income countries.

Although the economy is based on private ownership and operates mainly on a free-enterprise basis, public enterprises account for a sizable share of GDP (about 30% in the mid-1990s). The cooperative movement is important in rural trade, and the national and local governments own some productive facilities in certain fields requiring large amounts of capital not available from private sources. The economy developed rapidly after World War II, with a rate of capital investment so high at times as to strain available resources. GNP growth fell from 9% in 1977 to -3% in 1983 but recovered to 9% in 1987. After that, it averaged -0.4% through 1993. From 1992–2001 the economy grew impressively. GDP per capita reached one of the highest levels among OECD countries. This performance was largely due to market liberalization, privatization, and other factors that spurred entrepreneurship and investment.

For a time, inflation ran rampant, rising from 30 to 45% in the late 1970s to nearly 50% annually during 1981–85. It then moderated, dropping to only 3.7% in 1991 and 1.7% in 1998; it rose again to 9.4% at the beginning of 2002. Unemployment, traditionally low, was 2% in 1999 and 3.2% in 2002.

After 2001, the overheated economy slowed. The government tightened monetary policy and exercised fiscal restraint to reduce domestic demand. The krona went through a period of devaluation and inflation rose. However, the weak currency resulted in a surge in exports, which was also helped by increased production. Aluminum exports were up 22% in 2002. Iceland is in the process of reducing its dependence upon fishing, and the aluminum industry is one sector that is contributing to the diversification of the economy; in addition, the government is taking advantage of Iceland's inexpensive and abundant supply of geothermal energy. Iceland was in a mild recession in 2002, but the economy was expected to recover by 2003 or 2004.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Iceland's gross domestic product (GDP) was estimated at \$7.7 billion. The per capita GDP was estimated at \$27,100. The annual growth rate of GDP was estimated at -0.7%. The average inflation rate in 2001 was 5%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 14% of GDP, industry 21%, and services 65%.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$18,769. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption declined at an annual rate of 4%. Approximately 16% of household consumption was spent on food, 8% on fuel, 3% on health care, and 10% on education.

## 21 LABOR

The labor force numbered 159,000 in 2000. In 1999, 12% of employment in Iceland was in fishing or fish processing, 13% in manufacturing, 11% in construction, 5% in agriculture, with the remainder in services. In 2002 the estimated unemployment rate was 2.8%.

As of 2002, about 85% of workers are union members. Principal unions are the Icelandic Federation of Labor (associated with the ICFTU) and the Municipal and Government Employees' Association. Labor disputes are settled by direct negotiations or by special courts, however strikes are permitted. Collective bargaining is used to negotiate pay, hours, and other conditions.

The customary workweek is 40 hours. Workers are entitled to overtime pay in excess of eight hours per day. There is no legal minimum wage, but wages are negotiated through collective bargaining. Even the lowest paid workers earn sufficient wages to provide a decent standard of living. Child labor standards are stringent and strictly enforced.

## 22 AGRICULTURE

About 78% of Iceland is agriculturally unproductive, and only about 1% of the land area is actually used for cultivation. Of this amount, 99% is used to cultivate hay and other fodder crops, with the remaining 1% used for potato and fodder root production. There were about 4,000 full-time farmers in the 1990s, with about 75% living on their own land; some holdings have been in the same family for centuries. In the 19th century and earlier, agriculture was the chief occupation, but by 1930, fewer than 36% of the people devoted their energies to farming, and the proportion has continued to fall. Hay is the principal crop; other crops are potatoes, turnips, oats, and garden vegetables. In hot-spring areas, vegetables, flowers and even tropical fruits are cultivated for domestic consumption in greenhouses heated with hot water from the springs. Besides hay

and other fodder crops, about 9,000 tons of potatoes were produced in 1999. There are agricultural institutions in Borgarfjörur, Hjaltadalur, Hvanneyri, and Reykir; between 15-20% of all farmers have finished an agricultural degree program.

## 23 ANIMAL HUSBANDRY

Sheep raising is extensive, and mutton and lamb are primary meat products. Sheep are permitted to find their own grazing pasture during the warmer months and are rounded up toward the middle of September and put in shed for the winter. Cattle are raised mainly for dairying, and their number has been rising steadily; beef production is negligible. Sheep in 2001 numbered an estimated 473,000; cattle, 70,000 head; horses, 74,000; and poultry, 157,000. Estimated livestock production in 2001 included milk, 106,000 tons; mutton and lamb, 8,600 tons; and eggs, 2,000 tons. Iceland is self-sufficient in meat, dairy products, and eggs.

Icelandic farm animals are directly descended from the sheep, cattle, goats, pigs, poultry, dogs, cats, and especially horses (which were an invaluable means of travel) brought by 10th century Scandinavian settlers. In sparsely populated areas, such as the western fjords and on the east coast, farming is chiefly limited to raising sheep, although sheep farming exists in all areas of the country. Milk is produced mostly in the south and north. Except for poultry, egg, and pig production, farms are small in acreage and usually family-run. About 2,000 farmers are engaged in full-time sheep farming, and 1,000 more in mixed farming. There also are about 1,800 dairy farms in operation; Icelanders consume on average 175.1 (46.2 gal) of milk per capita per year, one of the highest amounts in the world. Cheese consumption is fourth highest, after France, Germany, and Italy. Horse-breeding is also a growing branch of animal husbandry in Iceland, as the popularity of the Iceland horse (which has five gaits) grows at home and abroad.

Animal farming is a highly mechanized industry carried out by well-educated farmers; nearly one fifth of all farmers matriculate at one of three agricultural colleges in Iceland.

## 24 FISHING

Accounting for about 9% of Iceland's employment, fishing and fish processing provide the primary source of foreign exchange. Exports of fish products were valued at \$1.22 billion in 2000. Icelanders consume more fish per capita annually (over 90 kg/198 lb live weight equivalent) than any other people in Europe. Cod is caught during the first five months of the year off the southwest coast. Herring are taken off the north and northeast coasts from June to September and off the southwest from September to December. In 2001, the fish catch was 1,941,905 tons (11th in the world), up from 1,502,445 tons in 1990. The 2001 catch included 918,417 tons of capelin, 365,101 tons of blue whiting, 240,002 tons of Atlantic cod, 101,172 tons of Atlantic herring, 50,087 tons of redfish, 30,790 tons of shrimp, and 39,825 tons of haddock.

The fishing fleet as of 2002 consisted of 80 stern trawlers totaling 79,413 GRT and 1,932 other fishing vessels of 112,024 GRT. Most fishing vessels are now equipped with telecommunications devices, computers, and automated equipment. Through the early 1980s, about 250 whales a year were caught off the coast, providing lucrative export products. Although Iceland had agreed to phase out whaling in order to comply with the 1982 ban by the International Whaling Commission, in 1987 it announced its intention to take 100 whales a year for scientific purposes, but since 1990 no whales were reportedly taken.

Abundant quantities of pure water and geothermal heat give Iceland an advantage over other nations in fish farming. Aquaculture is being developed to offset lean years in the natural fish catch, and to produce more expensive and profitable species of fish.

## 25 FORESTRY

There are no forests of commercial value, and the existing trees (ash, birch, aspen, and willow) are small; only about 1% of the total land area is considered forested. The originally extensive birch forests were cut down for firewood and to clear land for grazing sheep. In recent years, the remaining woods have been protected and reforestation has begun. Imports of forestry products amounted to about \$65.7 million in 2000.

## 26 MINING

Diatomite was a leading export commodity in 2002, and ferrosilicon production and geothermal power were Iceland's major mineral industries. Diatomite production, from Lake Myvatn, was 28,000 tons in 2001, and the Ministry of Environment issued a permit for dredging in a new area of the lake, as government studies determined that additional mining would not damage the environmentally sensitive lake. Iceland also produced hydraulic cement, nitrogen, pumice, salt, scoria, sand (basaltic, calcareous, and shell), sand and gravel, and crushed stone (basaltic and rhyolite); these minerals were used by local industries. Among Iceland's other mineral resources, spar and sulfur deposits, once mined, were no longer worked extensively; peat was common, but little used; and sulfur and lignite were being processed experimentally, the former with the use of subterranean steam. The country's aluminum plant and ferrosilicon plant relied on imported raw materials and inexpensive hydroelectric and geothermal energy.

## 27 ENERGY AND POWER

Hydroelectric power potential from Iceland's many swift rivers and waterfalls is high, and is considered the key to further industrial development. An estimated 45 billion kWh per year is economically exploitable from the five principal glacial rivers, while the total potential is estimated at 64 billion kWh per year. Net installed capacity in 2001 was 1,383,000 kW, of which about four-fifths was hydroelectric. Electric energy output in 2000 was 7,600 million kWh, with hydroelectric output accounting for 83% and alternative sources for 17%. A government rural electrification program is designed to bring inexpensive public power to every family in Iceland. Peat, formerly an important source of heat on the farms, has been virtually abandoned.

Hot springs are used for heating greenhouses in which vegetables, fruit, and flowers are raised, and for heating public buildings. Since 1943, most of Reykjavík has been heated by water from hot springs at Reykir, some 160 km (100 mi) from the city. About 85% of the population lives in homes heated with geothermal power. In recent years, however, a significant decline in flow from geothermal drill holes has raised concern that this energy resource may not be so boundless as was once thought.

## 28 INDUSTRY

Fish processing is the most important industry. Facilities for freezing, salting, sun-curing, and reducing to oil or fish meal are flexible enough to allow shifting from one process to another in accordance with demand. By-products include fish meal and cod-liver oil.

Although Iceland's industry is focused on fish processing, the country in the 21st century needs to diversify its economy, as fish stocks are declining. (Nevertheless, fishing accounted for 12% of GDP in 2001 and 40% of total exports.) The manufacturing of energy-intensive industries, particularly aluminum, are rising. The ISAL aluminum smelter has expanded its capacity, and in

2002, construction of another aluminum smelter was underway. Production exports rose 22% in 2001. Other projects included the construction of a magnesium plant and the enlargement of the ferro alloy plant. Other industry is small-scale and designed to meet local needs. Chief manufactures include fishing equipment, electric stoves and cookers, paints, clothing, soaps, candles, cosmetics, dairy products, confectionery, and beer. Clothing factories are situated in Reykjavík and Akureyri. Icelandic ammonium nitrate needs are more than met by a fertilizer plant at Gufunes with an annual production capacity of 60,000 tons. A cement factory in Akranes with a capacity of 115,000 tons per year supplies most domestic cement requirements; total production in the mid-1990s amounted to 83,100 tons per year. Production of aluminum rose from 40,000 tons in 1970 to 99,300 tons per year in the same period. A ferro-silicon smelter, which began production in 1979, produced some 66,000 tons per year and a diatomite processing plant produced 25,000 tons.

## 29 SCIENCE AND TECHNOLOGY

The Icelandic Research Council coordinates science policy and advises the government on scientific matters. It has five research institutes devoted to marine science, technology, agriculture, the fish industry, and the construction and building industries. Other research institutes and learned societies include the Surtsey Research Society, the Icelandic Meteorological Office, the Association of Chartered Engineers in Iceland, the Agricultural Society of Iceland, the Iceland Glaciological Society, the Icelandic Natural History Society, and the Icelandic Society of Sciences, all located at Reykjavík.

The Icelandic Council of Science, an independent agency under the Ministry of Culture and Education, aims to stimulate and encourage scientific research. The University of Iceland has faculties of medicine, engineering, dentistry, and science. Two agricultural colleges are located in Hólum i Hjaltadal and Hvanneyri. The Icelandic College of Engineering and Technology is located at Reykjavík. In 1987-97, science and engineering students accounted for 41% of university enrollment.

## 30 DOMESTIC TRADE

Foreign firms do not have branches in Iceland. Their business is conducted by Icelandic agents. Imports are handled by these agents, by wholesale or retail importers, or by the Federation of Iceland Cooperative Societies, and distribution is through private channels. Most advertising is translated and disseminated directly by agents. Foreign trade fairs are held from time to time.

Of the wholesale enterprises, 80-90% are concentrated in Reykjavík; more than half the retail establishments are likewise in the capital. Much trade is handled by cooperative societies, most of which are joined in the Federation of Iceland Cooperative Societies. A sales tax of 14% applies to most food items and books. A 24.5% tax applies to most other goods and services.

Business hours are from 9 AM to 6 PM on weekdays, and from 9 or 10 AM to noon on Saturdays. Banking hours are from 9:15 AM to 4 PM, Monday-Friday, with an additional hour from 5 to 6 PM on Thursday.

## 31 FOREIGN TRADE

The fishing industry of Iceland supports most of its commodity export market (60%). It supplies the world export market with 10.5% of its salted, dried, or smoked fish, second only to Norway in volume. Other important exports include aluminum (19%), animal feed (6.3%), iron (2.6%), diatomite, and ferrosilicon.

In 2000 Iceland's imports were distributed among the following categories:

Consumer goods	19.9%
Food	8.1%
Fuels	9.2%
Industrial supplies	22.2%
Machinery	23.4%
Transportation	17.0%
Other	0.2%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United Kingdom	367	214	153
Germany	312	283	29
United States	236	262	-26
Netherlands	147	181	-34
Japan	100	120	-20
Portugal	108	n.a.	n.a.
France	87	90	-3
Spain	87	40	47
Denmark	80	189	-109
Norway	76	191	-115

### 32 BALANCE OF PAYMENTS

The difference between imports and exports since World War II has been met by drawing from large wartime reserves, by Marshall Plan aid, and, since 1953, by income from US defense spending at Keflavík, the NATO airbase. Widely fluctuating current account deficits, attributable mainly to the trade imbalance, averaged more than 6.5% of GNP during 1971–75. During the next four years, although still largely negative, the current account balance improved; from 1980 through 1985, however, Iceland's current accounts position again deteriorated, this time because of large deficits in services. Iceland suffered a prolonged recession during 1987–93 due to cuts in fish catch quotas necessitated in part by overfishing. Again, there was a significant deterioration in the balance of payments, especially on the current account and merchandise trade balances. In 1994 the economy recovered with the help of a 6.3% growth in exports, due to a better than expected performance in the fishing sector. The external current account balance was positive for the first time since 1986. Iceland experienced successful economic performance in the 1990s but fell into recession in 2001, which negatively impacted the current account deficit.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Iceland's exports was \$2 billion while imports totaled \$2 billion resulting in a trade surplus of \$0 million.

The International Monetary Fund (IMF) reports that in 2000 Iceland had exports of goods totaling \$1.9 billion and imports totaling \$2.38 billion. The services credit totaled \$1.05 billion and debit \$1.16 billion. The following table summarizes Iceland's balance of payments as reported by the IMF for 2000 in millions of US dollars.

<b>Current Account</b>	<b>-848</b>
Balance on goods	-474
Balance on services	-115
Balance on income	-249
Current transfers	-10
<b>Capital Account</b>	<b>-3</b>
<b>Financial Account</b>	<b>853</b>
Direct investment abroad	-368
Direct investment in Iceland	145
Portfolio investment assets	-668
Portfolio investment liabilities	1,142
Other investment assets	-80
Other investment liabilities	684
<b>Net Errors and Omissions</b>	<b>-71</b>
<b>Reserves and Related Items</b>	<b>69</b>

### 33 BANKING AND SECURITIES

In March 1961, the Central Bank of Iceland was founded to issue notes and assume other central bank functions previously exercised by the National Bank of Iceland, a wholly state-owned bank established in 1885. Other banks are the Agricultural Bank, a state bank founded in 1929; the Fisheries Bank, a private joint-stock bank founded in 1930, with most of its shares held by the government; the Industrial Bank, a joint-stock bank established in 1953, with part of the shares owned by the government; the Iceland Bank of Commerce, founded in 1961; the Cooperative Bank of Iceland, founded in 1963; and the People's Bank, founded in 1971. All banks have main offices in Reykjavík, and some have branches in other towns. Savings banks are distributed throughout the country.

In 1955, Iceland took the first step toward indexation of financial assets. The Economic Management Act of 1979 established a system of full indexation of savings and credit, most provisions of which were gradually implemented over the next two years. Most deposits are now indexed, and legislation that took effect in November 1986 gave banks increased power to determine their interest rate.

In 1990 the number of commercial banks in Iceland were reduced from seven to four. A number of banks were forced to merge into the Islandbanki because of financial trouble. In 1997 there were four commercial banks, two of which, the Landsbanki and Bunadar banki, are still state-owned. The country's two other banks, Islandsbanki and Sparisjodabanki, are privately-owned.

The whole basis on which the financial system is supervised and regulated, however, has been transformed by Iceland's accession to the European Economic Area (EEA) in 1994. Under the agreement, Iceland has been required to implement into national law the common minimum standards for the supervision of financial institutions—banks, insurance companies, and securities firms—developed at EU level.

Since 15 June 1973, the market rate of the Icelandic króna has been floating vis-à-vis other currencies. A currency reform that took effect on 1 January 1981 introduced a new króna equivalent to 100 old krónur. The money supply, as measured by M2, totaled K135,353 million in 1995. The International Monetary Fund reports that in 1998, currency and demand deposits—an aggregate commonly known as M1—were equal to \$820.5 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$3.2 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 8.12%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 8.5%.

The Securities Exchange of Iceland (SEI) was established in 1985 on the basis of rules set by the Central Bank. A new Act on the Icelandic Stock Exchange was passed in February 1993, granting a monopoly to the exchange. As of 1998, 67 companies were listed on the stock exchange.

### 34 INSURANCE

There are many mutual insurance societies in addition to the national health and social insurance scheme. Almost all direct insurance is written by domestic companies that conduct business in the various kinds of property and life insurance. In 1995, there were at least 19 insurance companies operating. Automobile liability insurance and homeowners' coverage against fire, floods, earthquakes, and volcanic eruptions are compulsory. The Ministry of Insurance Affairs is the principal supervisory body. In 2001, there was \$18 million worth of life insurance premiums written.

### 35 PUBLIC FINANCE

Since 1984, Iceland's budget has shown a deficit averaging nearly 2% of GDP raising its net indebtedness relative to GDP to almost 30% in 1994. Government attempts to balance the budget were frustrated by the economic downturn during 1987-93 and by fiscal concessions to expedite wage settlements. Consequently, the deficit has been larger than expected reaching 34% of GDP in 1999.

The US Central Intelligence Agency (CIA) estimates that in 1999 Iceland's central government took in revenues of about \$3.5 billion and had expenditures of \$3.3 billion including capital expenditures of \$467 million. Overall, the government registered a surplus of approximately \$200 million. External debt totaled \$2.6 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>3,500</b>
Tax revenue	86.2%	3,018
Non-tax revenue	12.7%	445
Capital revenue	1.1%	37
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>3,300</b>
General public services	6.0%	198
Public order and safety	5.1%	167
Education	10.1%	332
Health	25.3%	835
Social security	21.8%	719
Housing and community amenities	1.0%	31
Recreation, cultural, and religious affairs	4.1%	135
Economic affairs and services	17.4%	575
Other expenditures	2.0%	67
Interest payments	7.3%	240

### 36 TAXATION

Recent tax reforms in Iceland have produced a steady drop in corporate income tax rates throughout the 1990's and, since 1995, decreased marginal rates and increased thresholds for personal income tax. The corporate income tax rate, at 50% in 1989, was decreased from 30% in 2001 to 18% in 2002. The income tax on partnerships, was decreased from 38% in 2001 to 26% in 2002. Since March 1999, Iceland has also offered an offshore corporate tax rate of 5% to international trading companies (ITCs) that exclusively trade in goods and services outside of Iceland. Since 1997 all capital income from interest payments, dividends, capital gains and rental income has been subject to a uniform 10% income tax rate, and all has been subject to a 10% withholding tax at the source. For businesses, the capital income tax withheld is credited towards their corporate tax liability.

The personal income tax schedule in Iceland consists of a tax free allowance (about \$10,457 in 2002 increased to \$10,785 in 2003); a total tax rate that is the sum of the central government's general rate (25.75% in 2002 and 2003) and the municipal tax rate (12.8% in 2002 and 2003) giving a total tax rate of 38.55%; and a central government surtax (7% in 2002 reduced to 5% in 2003) which is applied to income above a certain threshold (\$51,404 in 2002 and \$52,818 in 2003) creating a three-bracket structure with maximum tax rate of 45.54% in 2002 decreased to 43.54% in 2003. Seamen are allowed special a special tax reduction amounting to about \$9.20 a day in 2002 and \$9.40 a day in 2003. The social security tax is 5.73%. Since 1999, reductions in social security taxes (0.2% in 1999 and 0.4% as of May 2000) have been offered to employers in exchange for their

contribution to supplementary employee pension premiums. Capital income is taxed at 10% and subject to a 10% withholding tax. In 2003 the wealth tax rate, applied to assets above about \$61,000, was halved from 1.2% to 0.6% and a 0.25% surtax on net wealth above approximately \$81,800 was abolished largely because of increases in real property values following an assessment review by the Valuation Office in 2002. Inheritance and gift taxes range from 11% to 15%. There is a 2% to 6% tax on the transfer of housing, and a 10% tax on the transfer of large estates. Local authorities may levy individual income and corporate taxes.

The major indirect tax is Iceland's value-added tax (VAT) with a normal rate of 24.5% on domestic goods and services. There is a reduced rate of 14% applied to most foodstuffs, books, newspapers and periodicals, subscriptions to radio and the TV, hotels, electricity, geothermal heating. Exempted from VAT are exports of goods and services, as well as services connected with imports and exports. Other categories for exemption include health services, social services, education, libraries, the arts, sports, passenger transport, postal services, rental of property, insurance and banking.

### 37 CUSTOMS AND DUTIES

Over 90% of imports are not subject to import restrictions or duties other than the same value-added tax applied to domestically produced goods. Special excise taxes are levied on sugar and some sugar products, potatoes, and motor vehicles. Agricultural products remain the most heavily taxed. In March 1970, Iceland acquired full membership in EFTA. On 28 February 1973, Iceland ratified a trade agreement with the European Community (later named the European Union) leading to the elimination of tariffs on industrial goods. A law authorizing the establishment of free trade zones went into effect in 1992. Iceland's trade regime underwent considerable liberalization in the 1990s with accession to the European Economic Area (EEA) in 1993, and the Uruguay Round in 1994.

Current duty rates generally range from 0% to 30% ad valorem and the average weighted tariff is 3.6%. Some goods enter duty-free, such as meat, fish, and dairy products.

### 38 FOREIGN INVESTMENT

Icelanders have been reluctant to permit substantial foreign investment; nearly all such investment is limited to participation in joint ventures in which Icelandic interests hold a majority share. There is only one wholly foreign-owned industrial facility in the country, a Swiss aluminum-processing facility. Two others, a ferro-silicon and a diatomite plant, have foreign equity participation. From the beginning of 1993, Icelanders have been free to invest abroad.

For the period 1988 to 1990, Iceland's share in world foreign direct investment (FDI) inflow was only 30% of its share in world GDP. For the period 1998 to 2000, its share of world FDI inflows was 40% of its share of world GDP, a marginal improvement. Except for a fall to \$66 million in 1998, yearly FDI inflows to Iceland have in the range of \$146 million (2001) to \$158 million (2000).

### 39 ECONOMIC DEVELOPMENT

The national government and some local governments are involved in trawler fishing, herring processing, merchant shipping, electric power facilities, and certain other industries. To a considerable degree, the central government supervises the export-import trade and the fishing and fish-processing industries. It may set uniform prices of export commodities and may shift export and import trade to specific countries as balance-of-payments considerations require. It channels investment funds into fields it considers desirable.

The government supports farmers in the rebuilding or enlarging of their homes, livestock sheds, and barns, and assists them in the purchase of machinery. Equipped with crawler tractors and excavators, a government agency helps farmers enlarge cultivated areas and break, drain, and level new lands for the establishment of homesteads. Thousands of new acres have thus been brought under cultivation.

The government fixes prices of essential foods and other basic consumption items and subsidizes them, both to limit prices for the consumer and to maintain farm incomes. It also fixes markups that manufacturers, wholesalers, retailers, and importers may place on a wide variety of products.

In the early 1990s, the government concentrated on maintaining the value of the króna by bringing down inflation, even at the cost of economic growth. Wage gains were restricted. In late 1992, plans were made public for a Fisheries Development Fund that would buy and scrap unneeded vessels and thereby promote efficiency. The Fund would also be used to help firms establish joint ventures abroad and buy fishing rights. Plans were also under way to sell several state-owned companies, with the money used for research and development and reducing the deficit. Entry into the European Economic Area (EEA) in 1994 and the Uruguay Round brought increased trade liberalization and foreign investment. The country experienced rapid economic growth during the late 1990s, but high domestic spending led to a widening current account deficit that peaked at 10% of GDP in 2000.

The economy went into recession in 2001, and inflation rose. The government tightened monetary and fiscal policy that brought inflation down, but GDP growth remained negative in 2002. The government adopted a floating exchange rate for the króna in March 2001. Gross external debt amounted to 130% of GDP at the end of 2002. The government is looking to diversify exports, which is expected to stabilize the economy.

#### 40 SOCIAL DEVELOPMENT

The national health insurance scheme, initiated in 1936 and revised and enlarged in 1947, includes insurance against sickness, accident, and unemployment; pensions for the aged and disabled; and a health service that provides protection and treatment and care of the sick. Benefits in all three categories were increased in 1963, and the administration of the whole scheme was unified under the supervision of the State Social Insurance Institution. Universal pensions covering all residents are paid by employer and government contributions, while the cost of employment pensions is shared by employees and employers. Both fathers and mothers are entitled to three months of paid maternity leave.

The number of women in the work force is high, partially due to a comprehensive subsidized day care program. Women are given a preference in areas where they are underrepresented in the workplace. Equal pay for equal work is required by law although men continue to earn 30% more than women. The government takes serious measures to protect women against violence and sexual abuse, though many cases remain unreported.

The constitution provides for the freedom of speech and press, assembly and association, and religion. These rights are generally respected by the government. There is very little discrimination based on race, gender, religion, disability, language, or social status.

#### 41 HEALTH

The Director of Public Health is responsible for all health matters. Iceland had 2.8 doctors per 1,000 inhabitants in 1992. In 1998 there were roughly 3.3 physicians, 8.7 nurses, 0.9 midwives, 1.1 dentists, and 0.8 pharmacists per 1,000 people. In the 1990s there were an estimated 53 hospitals, with 3,985 beds. Two-thirds of the beds were in nursing and senior living homes, with the remaining one-third in hospitals. As of 1991, 93% of all

health bills were paid by public insurance. Public expenditures on health were among the highest in industrialized countries at 19.3% of total public expenditures during 1989–1991.

There were 5,000 births in 1992. As of 2002, Iceland had estimated birth and death rates of, respectively, 14.4 and 6.9 per 1,000 people. Life expectancy was estimated at 79.7 years, among the highest in the world and highest among the Nordic countries. Infant mortality in 2002 was estimated at 3.5 per 1,000 live births. The total fertility rate was two children per woman during her childbearing years. The incidence of tuberculosis, once widespread, has been greatly reduced. Leprosy, also common in earlier times, has been virtually eliminated, with no new cases reported in recent decades. In 1998, 99% of Iceland's children were immunized against measles. There were two reported cases of AIDS and 10 cases of tuberculosis in 1998. The number of AIDS cases per 100,000 people was 1.1 in 1994. As of 1999, there were an estimated 200 people living with HIV/AIDS and fewer than 100 deaths from the disease.

The major causes of death per 100,000 population in 1993 were as follows: circulatory system diseases, 294.3; cerebrovascular disease 67.0; malignant neoplasms (cancers) 170.8; and diseases of the respiratory system 88.6.

#### 42 HOUSING

The total number of dwellings in the mid-1990s was 95,800. In 1992, 1,591 dwellings were completed, and 1,467 dwellings were started. Most rural buildings were at one time made of turf, then of wood, and most recently of stone and concrete. In the towns, turf houses long ago gave way to wooden ones, but for some decades most new housing has been concrete. Virtually all dwellings have electricity, piped water, and central heating.

#### 43 EDUCATION

There is virtually no adult illiteracy. Education is compulsory for children ages 6 to 16. In 1997, there were 29,342 students enrolled in 193 primary schools. In 1996, secondary schools enrolled approximately 31,000 students. The pupil-teacher ratio at the primary level was 11 to 1 in 1999. In the same year, all (100%) of primary-school-age children were enrolled in school, while 76% of those eligible attended secondary school. Special schools include a commercial high school, a school of navigation, two schools of agriculture, and continuation schools. The University of Iceland in Reykjavík, founded in 1911, has faculties of law and economics, theology, medicine and dentistry, philosophy (art and humanities), and engineering. Tuition is free; only nominal registration and examination fees must be paid. In 1997, post-secondary institutions had a combined enrollment of 7,908 students.

In some remote rural areas, a system of "alternate teaching" is in effect. This allows children to study intensively for a week or two at a boarding school, then return home for the same period of time. There are three main types of secondary schools: grammar schools, comprehensive high schools and vocational schools. As of 1999, public expenditure on education was estimated at 7.1% of GDP.

#### 44 LIBRARIES AND MUSEUMS

The leading libraries, all in Reykjavík, are the National University Library (founded in 1918; 700,000 volumes), the City Library of Reykjavík (425,000 volumes), and the National Archives, which contains a collection of documents covering 800 years of Icelandic history. There were a total of 187 public libraries with combined holdings of 1.9 million volumes in 1997.

Iceland has more than 50 museums. The important museums, also all in Reykjavík, are the Icelandic National Museum (founded in 1863), the Natural History Museum (1889), and a museum devoted to the sculptures and paintings of Einar Jónsson. Also in the capital are the National Gallery of Iceland,



the Living Art Museum, and the Sigurjón Ólafsson Museum, among others.

#### 45 MEDIA

In 1997 there were 168,000 main line telephones and 65,746 mobile cellular phones. Radio and radiotelephone communications are maintained with Europe and America and an underwater telegraph cable connects Iceland with Europe. The telephone, telegraph, and radio systems are publicly owned and administered. Icelandic radio broadcasts primarily on FM, via numerous public and private stations. Television was initiated in 1966. As of 1999 there were 5 AM and 147 FM radio stations and 14 television stations. In 1997 there were 260,000 radios and 98,000 television sets throughout the country.

There are five daily newspapers, four of which are published in Reykjavík. With their political orientation and average daily circulation in 2002, they were:

	ORIENTATION	CIRCULATION
<i>Morgunblaðid</i>	Independence Party	53,000
<i>DV Dagblaðid</i>	NA	44,000
<i>Tíminn</i>	Progressive Party	14,000
<i>Althyðublaðid</i>	NA	4,000
<i>Dagur-Tíminn</i> (Akureyri)	Progressive Party	NA

Nondaily newspapers are published in Reykjavík and other towns. Various popular and scholarly periodicals are published in Reykjavík.

The law prohibits the production, showing, distribution, and/or sale of violent movies, which are defined as containing scenes depicting the mistreatment or the brutal killing of men or animals. The Motion Picture Review Committee, which includes six members, is appointed by the Minister of Education and Culture to review all movies before they are shown. The committee also rates the films based on their suitability for children. By their evaluation, the committee may ban a film or require edits before its release.

The constitution provides for freedom of speech and press, and the government is said to respect these rights in practice.

#### 46 ORGANIZATIONS

Among the many social, professional, and service organizations in Iceland are the Chamber of Commerce, the YMCA and YWCA, the Salvation Army, the Red Cross, the Iceland Sport Association, the Federation of Icelandic Cooperative Societies, lodges of the Order of the Good Templar (temperance societies), Kiwanis, the Lion's Club, the Employers' Federation, the Association of Steam Trawler Owners, and the Union of Icelandic Fish Producers.

Notable national youth organizations include the Federation of Young Progressives, Independence Party Youth Organization, National Council of Icelandic Youth, National Union of Icelandic Students, Social Democratic Youth Federation, Youth Movement of the People's Alliance, and The Icelandic Boy and Girl Scouts Association.

Learned societies include the Icelandic Archaeological Society, the Icelandic Historical Society, the Icelandic Literary Society, the Music Society, the Icelandic Natural History Society, and the Agricultural Association. There are also the Icelandic Artists' Association, the Iceland Association of Pictorial Artists, the Icelandic Actors' Association, the Icelandic Musicians' Association, the Icelandic Composers' Society, the Icelandic Architects' Association, and the Icelandic Writers' Association. Among other cultural organizations are the Icelandic-American Society, the Danish Society, the Danish-Icelandic Society, the Anglo-Icelandic Society, the Alliance Française, the Nordic Society, and the Union of Women's Societies.

#### 47 TOURISM, TRAVEL, AND RECREATION

Iceland offers such diverse and unusual natural attractions as active volcanoes, glaciers, and hot springs. Among popular participatory sports are swimming (possible year-round in geothermal pools), salmon fishing, pony trekking, and golf. Tourists may arrange to stay in modern hotels or guest houses, on farms, or in youth hostels.

Citizens of the Scandinavian countries do not require a passport when visiting Iceland. Residents of some 60 countries (including the US, UK, and Canada) do not need visas for stays of up to three months but do need valid passports. Each visitor must have a return ticket, a reentry permit to the country of origin or permission to enter a third country, and sufficient funds for the intended period of the visit.

The number of tourist arrivals in Iceland in 2000 was 302,913. Receipts from these visits were \$227 million. That year there were 6,045 hotel rooms with 12,471 beds and an occupancy rate of 46%.

The daily cost of staying in Iceland, according to 2001 US government estimates, is \$271 between May and September and between \$193 and \$261 at all other times.

#### 48 FAMOUS ICELANDERS

Famous early Icelanders were Eric the Red (Eiríkur Thorvaldsson), who discovered and colonized Greenland in 982, and his son Leif Ericsson (Leifur Eiríksson, b.970), who introduced Christianity to Greenland and discovered the North American continent (c.1000). Two famous patriots and statesmen were Bishop Jón Arason (1484–1550), who led the fight for liberty against the power of the Danish king, and Jón Sigurðsson (1811–79), Iceland's national hero, champion of the fight for independence. Vigdís Finnbogadóttir (b.1930) served four consecutive terms as president from 1980 to 1996, becoming the first female elected to the presidency of any republic.

Prominent writers were Ari Thorgilsson (1067–1148), father of Icelandic historical writing; Snorri Sturluson (1178–1241), author of the famous *Prose Edda*, a collection of Norse myths; and Hallgrímur Pétursson (1614–74), author of Iceland's beloved Passion Hymns. Leading poets include Bjarni Thorarensen (1786–1841) and Jónas Hallgrímsson (1807–45), pioneers of the Romantic movement in Iceland; Matthías Jochumsson (1835–1920), author of Iceland's national anthem; Thorsteinn Erlingsson (1858–1914), lyricist; Einar Hjörleifsson Kvaran (1859–1939), a pioneer of realism in Icelandic literature and an outstanding short-story writer; Einar Benediktsson (1864–1940), ranked as one of the greatest modern Icelandic poets; Jóhann Sigurjónsson (1880–1919), who lived much of his life in Denmark and wrote many plays based on Icelandic history and legend, as well as poetry; and the novelist Halldór Kiljan Laxness (1902–98), who received the Nobel Prize for literature in 1955.

Niels Ryberg Finsen (1860–1904), a physician who pioneered in the field of light (ray) therapy, received the Nobel Prize for medicine in 1903. Stefán Stefánsson (1863–1921) was the pioneer Icelandic botanist. Helgi Pjeturss (1872–1949), geologist and philosopher, was an authority on the Ice Age and the geology of Iceland. Einar Jónsson (1874–1954), Iceland's greatest sculptor, is represented in European and American museums.

#### 49 DEPENDENCIES

Iceland has no territories or colonies.

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# IRELAND

Éire

**CAPITAL:** Dublin (Baile Átha Cliath)

**FLAG:** The national flag is a tricolor of green, white, and orange vertical stripes.

**ANTHEM:** *Amhrán na bhFiann (The Soldier's Song)*.

**MONETARY UNIT:** The euro replaced the Irish punt as the official currency in 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** Since 1988, Ireland has largely converted from the British system of weights and measures to the metric system.

**HOLIDAYS:** New Year's Day, 1 January; St. Patrick's Day, 17 March; Bank Holidays, 1st Monday in June, 1st Monday in August, and last Monday in October; Christmas Day, 25 December; St. Stephen's Day, 26 December. Movable religious holidays include Good Friday and Easter Monday.

**TIME:** GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

An island in the eastern part of the North Atlantic directly west of the United Kingdom, on the continental shelf of Europe, Ireland covers an area of 70,280 sq km (27,135 sq mi). Comparatively, the area occupied by Ireland is slightly larger than the state of West Virginia. The island's length is 486 km (302 mi) N-S, and its width is 275 km (171 mi) E-W. The Irish Republic is bounded on the N by the North Channel, which separates it from Scotland; on the NE by Northern Ireland; and on the E and SE by the Irish Sea and St. George's Channel, which separate it from England and Wales. To the W, from north to south, the coast is washed by the Atlantic Ocean.

Ireland's capital city, Dublin, is located on the Irish Sea coast.

## <sup>2</sup>TOPOGRAPHY

Ireland is a limestone plateau rimmed by coastal highlands of varying geological structure. The central plain area, characterized by many lakes, bogs, and scattered low ridges, averages about 90 m (300 ft) above sea level. Principal mountain ranges include the Wicklow Mountains in the east and Macgillycuddy's Reeks in the southwest. The highest peaks are Carrantuohill (1,041 m/3,414 ft) and Mt. Brandon (953 m/3,127 ft), near Killarney, and, 64 km (40 mi) south of Dublin, Lugnaquilla (926 m/3,039 ft).

The coastline, 1,448 km (900 mi) long, is heavily indented along the south and west coasts where the ranges of Donegal, Mayo, and Munster end in bold headlands and rocky islands, forming long, narrow fjordlike inlets or wide-mouthed bays. On the southern coast, drowned river channels have created deep natural harbors. The east coast has few good harbors.

Most important of the many rivers is the Shannon, which rises in the mountains along the Ulster border and drains the central plain as it flows 370 km (230 mi) to the Atlantic, into which it empties through a wide estuary nearly 110 km (70 mi) long. Other important rivers are the Boyne, Suir, Liffey, Slaney, Barrow, Blackwater, Lee, and Nore.

## <sup>3</sup>CLIMATE

Ireland has an equable climate, because the prevailing west and southwest winds have crossed long stretches of the North Atlantic Ocean, which is warmer in winter and cooler in summer than the continental land masses. The mean annual temperature is 10°C (50°F), and average monthly temperatures range from a mild 4°C (39°F) in January to 16°C (61°F) in July. Average yearly rainfall ranges from less than 76 cm (30 in) in places near Dublin to more than 254 cm (100 in) in some mountainous regions. The sunniest area is the extreme southeast, with an annual average of 1,700 hours of bright sunshine. Winds are strongest near the west coast, where the average speed is about 26 km/hr (16 mph).

## <sup>4</sup>FLORA AND FAUNA

Since Ireland was completely covered by ice sheets during the most recent Ice Age, all native plant and animal life now extant originated from the natural migration of species, chiefly from other parts of Europe and especially from Britain. Early sea inundation of the land bridge connecting Ireland and Britain prevented further migration after 6000 BC. Although many species have subsequently been introduced, Ireland has a much narrower range of flora and fauna than Britain. Forest is the natural dominant vegetation, but the total forest area is now only 5% of the total area, and most of that remains because of the state afforestation program. The natural forest cover was chiefly mixed sessile oak woodland with ash, wych elm, birch, and yew. Pine was dominant on poorer soils, with rowan and birch. Beech and lime are notable natural absentees that thrive when introduced.

The fauna of Ireland is basically similar to that of Britain, but there are some notable gaps. Among those absent are weasel, polecat, wildcat, most shrews, moles, water voles, roe deer, snakes, and common toads. There are also fewer bird and insect species. Some introduced animals, such as the rabbit and brown rat, have been very successful. Ireland has some species not native to Britain, such as the spotted slug and certain species of wood lice. Ireland's isolation has made it notably free from plant and

animal diseases. Among the common domestic animals, Ireland is particularly noted for its fine horses, dogs, and cattle. The Connemara pony, Irish wolfhound, Kerry blue terrier, and several types of cattle and sheep are recognized as distinct breeds.

## 5 ENVIRONMENT

Ireland enjoys the benefits of a climate in which calms are rare and the winds are sufficiently strong to disperse atmospheric pollution. Nevertheless, industry is a significant source of pollution. In 1996, carbon dioxide emissions from industrial sources totaled 34.9 million metric tons. Ireland produces over 1.5 million tons of solid waste and 56,000 tons of hazardous wastes. Water pollution is also a problem, especially pollution of lakes from agricultural runoff. The nation has 49 cu km of renewable water resources with 21% used for industrial purposes and 15% used for farming activity. Principal responsibility for environmental protection is vested in the Department of the Environment. The Department of Fisheries and Forestry, the Department of Agriculture, and the Office of Public Works also deal with environmental affairs. Local authorities, acting under the supervision of the Department of the Environment, are responsible for water supply, sewage disposal, and other environmental matters. As of 2001, two mammal species and one bird species were threatened with extinction. Threatened species include the Baltic sturgeon, Kerry slug, and Marsh snail.

## 6 POPULATION

The population of Ireland in 2003 was estimated by the United Nations at 3,956,000, which placed it as number 121 in population among the 193 nations of the world. In that year approximately 11% of the population was over 65 years of age, with another 21% of the population under 15 years of age. There were 99 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 1.12%, with the projected population for the year 2015 at 4,398,000. The population density in 2002 was 54 per sq km (140 per sq mi).

It was estimated by the Population Reference Bureau that 59% of the population lived in urban areas in 2001. The capital city, Dublin, had a population of 977,000 in that year. The other largest urban centers were Cork (127,024), Limerick (52,040), Galway (50,842), and Waterford (40,345). According to the United Nations, the urban population growth rate for 2000–2005 was 1.2%.

## 7 MIGRATION

The great famine in the late 1840s inaugurated the wave of Irish emigrants to the US, Canada, Argentina, and other countries: 100,000 in 1846, 200,000 per year from 1847 to 1850, and 250,000 in 1851. Since then, emigration has been a traditional feature of Irish life, although it has been considerably reduced since World War II. The net emigration figure decreased from 212,000 for 1956–61 to 80,605 for 1961–66 and 53,906 for 1966–71. During 1971–81, Ireland recorded a net gain from immigration of 103,889. As of November 1995, more than 150,000 people had left Ireland in the previous 10 years, unemployment being the main reason. The top two destinations were the United Kingdom and the United States.

During the 1990s there was been a considerable rise in the number of asylum-seekers, from 39 applications in 1992 to 4,630 in 1998. The main countries of origin were Nigeria, Romania, the Democratic Republic of the Congo, Libya, and Algeria. During the first half of 1999, 1,965 asylum applications were filed, and some 6,000 applications were still pending. Additional staff had to be hired to deal with the backlog. Also, during the Kosovo crisis in 1999, Ireland took in 1,033 Kosovar Albanians who were evacuated from Macedonia under the UNHCR/IOM

Humanitarian Evacuation Programme. In 1999, the net migration rate was -1.31 migrants per 1,000 population.

## 8 ETHNIC GROUPS

Within historic times, Ireland has been inhabited by Celts, Norsemen, French Normans, and English. Through the centuries, the racial strains represented by these groups have been so intermingled that no purely ethnic divisions remain.

## 9 LANGUAGES

Two languages are spoken, English and Irish (Gaelic). During the long centuries of British control, Irish fell into disuse except in parts of western Ireland. Since the establishment of the Irish Free State in 1922, the government has sought to reestablish Irish as a spoken language throughout the country. It is taught as a compulsory subject in schools and all government publications, street signs, and post office notices are printed in both Irish and English. English, however, remains the language in common use. Only in a few areas (the Gaeltacht), mostly along the western seaboard, is Irish in everyday use. In 1995, a nation survey found that only 5% of Irish people frequently used the Irish language and only 2% considered it their native tongue. About 30% of the population, however, claims some proficiency in Gaelic.

## 10 RELIGIONS

According to the most recent estimates (1998), about 92% of the population is nominally Roman Catholic. However, Church officials report that only about half of these members are active practitioners. The next largest organization is the Church of Ireland, with a membership of about 3% of the population. About 0.4% of the population are Presbyterian, 0.1% are Methodist, and less than 0.1% are Jewish. There are small communities of Muslims and Jehovah's Witnesses. For ecclesiastical purposes, the Republic of Ireland and Northern Ireland (UK) constitute a single entity. Both Roman Catholics and Episcopalian churches have administrative seats at Armagh in Northern Ireland. The Presbyterian Church has its headquarters in Belfast.

## 11 TRANSPORTATION

The Irish Transport System (Córas Iompair Éireann-CIE), a state-sponsored entity, provides a nationwide coordinated road and rail system of public transport for goods and passengers. It is also responsible for maintaining the canals, although they are no longer used for commercial transport. Ireland's railroads, like those of many other European countries, have become increasingly unprofitable because of competition from road transport facilities. There were 3,314 km (2,059 mi) of track in 2002. CIE receives an annual government subsidy.

A network of good main roads extends throughout the country, and improved country roads lead to smaller towns and villages. Ninety-six per cent of all inland passenger transport and 90% of inland freight are conveyed by road. Bus routes connect all the major population centers and numerous moderate-sized towns. In 2002, there were 92,500 km (57,480 mi) of roads, of which 87,043 km (54,638 mi) were surfaced. Automobiles in 2000 numbered 1,322,887 passenger vehicles and 213,822 commercial vehicles.

In 2002, Ireland's merchant fleet consisted of 26 vessels with a total of 110,741 GRT. The state-supported shipping firm, the British and Irish Steam Packet Co. (the B and I Line), is largely engaged in cross-channel travel between Ireland and the United Kingdom, providing passenger and car ferry services as well as containerized freight services, both port to port and door to door. The Irish Continental Line operates services to France, linking Rosslare with Le Havre and Cherbourg; it also runs a summer service between Cork and Le Havre. Brittany Ferries operates a weekly service between Cork and Roscoff. Other shipping



LOCATION: 51°30' to 55°30' N; 6° to 10°30' W. BOUNDARY LENGTHS: Northern Ireland, 434 kilometers (270 miles); total coastline, 3,169 kilometers (1,969 miles). TERRITORIAL SEA LIMIT: 3 miles.

concerns operate regular passenger and freight services to the United Kingdom and freight services to the Continent. There are deepwater ports at Cork and Dublin and 10 secondary ports. Dublin is the main port.

In 2001 there were an estimated 41 airports, 16 of which had paved runways. Aer Lingus (Irish International Airlines), the Irish national airline, operates services between Ireland, the United Kingdom, and continental Europe as well as transatlantic flights. Many foreign airlines operate scheduled transatlantic passenger and air freight services through the duty-free port at Shannon, and most transatlantic airlines make nonscheduled stops there; foreign airlines also operate services between Ireland, the United Kingdom, and continental Europe. The three state airports at

Dublin, Shannon, and Cork are managed by Aer Rianta on behalf of the Ministry for Transport and Power. A domestic airline, Aer Arann Teo, connects Galway with the Aran Islands and Dublin. In 2001, 16,374,000 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The pre-Christian era in Ireland is known chiefly through legend, although there is archaeological evidence of habitation during the Stone and Bronze ages. In about the 4th century BC, the tall, red-haired Celts from Gaul or Galicia arrived, bringing with them the Iron Age. They subdued the Picts in the north and the Érainn tribe in the south, then settled down to establish a Gaelic civilization, absorbing many of the traditions of the previous inhabitants. By the 3rd century AD, the Gaels had established five permanent kingdoms—Ulster, Connacht, Leinster, Meath (North Leinster), and Munster—with a high king, whose title was often little more than honorary, at Tara. After St. Patrick's arrival in AD 432, Christian Ireland rapidly became a center of Latin and Gaelic learning. Irish monasteries drew not only the pious but also the intellectuals of the day, and sent out missionaries to many parts of Europe.

Toward the end of the 8th century, the Vikings began their invasions, destroying monasteries and wreaking havoc on the land, but also intermarrying, adopting Irish customs, and establishing coastal settlements from which have grown Ireland's chief cities. Viking power was finally broken at the Battle of Clontarf in 1014. About 150 years later, the Anglo-Norman invasions began. Gradually, the invaders gained control of the whole country. Many of them intermarried, adopted the Irish language, customs, and traditions, and became more Irish than the Gaels. But the political attachment to the English crown instituted by the Norman invasion caused almost 800 years of strife, as successive English monarchs sought to subdue Gaels and Norman-Irish alike. Wholesale confiscations of land and large plantations of English colonists began under Mary I (Mary Tudor) and continued under Elizabeth I, Cromwell, and William III. Treatment of the Irish reached a brutal climax in the 18th century with the Penal Laws, which deprived Catholics and Dissenters (the majority of the population) of all legal rights.

By the end of the 18th century, many of the English colonists had come to regard themselves as Irish and, like the English colonists in America, resented the domination of London and their own lack of power to rule themselves. In 1783, they forced the establishment of an independent Irish parliament, but it was abolished by the Act of Union (1800), which gave Ireland direct representation in Westminster. Catholic emancipation was finally achieved in 1829 through the efforts of Daniel O'Connell, but the great famine of the 1840s, when millions died or emigrated for lack of potatoes while landlords continued to export other crops to England, emphasized the tragic condition of the Irish peasant and the great need for land reform.

A series of uprisings and the growth of various movements aimed at home rule or outright independence led gradually to many reforms, but the desire for complete independence continued to grow. After the bloodshed and political maneuvers that followed the Easter Uprising of 1916 and the proclamation of an Irish Republic by Irish members of Parliament in 1919, the Anglo-Irish Treaty was signed in 1921, establishing an Irish Free State with dominion status in the British Commonwealth. Violent opposition to dominion status and to a separate government in Protestant-dominated Northern Ireland precipitated a civil war lasting almost a year. The Free State was officially proclaimed and a new constitution adopted in 1922, but sentiment in favor of a reunified Irish Republic remained strong, represented at its extreme by the terrorist activities of the Irish Republican Army (IRA). Powerful at first, the IRA lost much of its popularity after Éamon de Valera, a disillusioned supporter, took over the

government in 1932. During the civil violence that disrupted Northern Ireland from the late 1960s on, the Irish government attempted to curb the “provisional wing” of the IRA, a terrorist organization that used Ireland as a base for attacks in the north. Beginning in 1976, the government assumed emergency powers to cope with IRA activities, but the terrorist acts continued, most notably the assassination on 27 August 1979 of the British Earl Mountbatten. The Irish government continues to favor union with Northern Ireland, but only by peaceful means. In November 1985, with the aim of promoting peace in Northern Ireland, Ireland and the United Kingdom ratified a treaty enabling Ireland to play a role in various aspects of Northern Ireland’s affairs.

The years since the proclamation of the Irish Free State have also witnessed important changes in governmental structure and international relations. In 1937, under a new constitution, the governor-general was replaced by an elected president, and the name of the country was officially changed to Ireland (Éire in Irish). In 1948, Ireland voted itself out of the Commonwealth of Nations, and on 18 April 1949, it declared itself a republic. Ireland was admitted to the UN in 1955 and became a member of the EC in 1973.

Mary Robinson, an international lawyer, activist, and Catholic, who was elected president in November 1990, became the first woman to hold that office. In 1974, while serving in the Irish legislature, she shocked her fellow countrypeople by calling for legal sale of contraceptives. Her victory came at a period in Irish history dominated by controversy over the major issues of the first half of the 1990s: unemployment, women’s rights, abortion, divorce, and homosexuality. Robinson promoted legislation that enabled women to serve on juries and gave 18-year-olds the right to vote. In the latter half of the 1990s, the economic situation greatly improved and Ireland recorded growth rates of 7% between 1996–2000. Unemployment fell from 16% in 1993 to 5% in 2000. Due to the global economic downturn that began in 2001, however, even Ireland’s booming economy slowed; GDP growth in Ireland was forecast for 3% in 2003.

In 1997, Mary McAleese, who lives in Northern Ireland, became the first British subject to be elected president of the Irish Republic. Her term expires in 2004.

On 10 April 1998 the Irish Republic jointly signed a peace agreement with the United Kingdom to resolve the Northern Ireland crisis. Ireland pledged to amend articles 2 and 3 of the Irish Constitution, which lay claim to the territory of the North, in return for the United Kingdom promising to amend the Government of Ireland Act. On 22 May 1998, 94.4% of the electorate voted in a referendum to drop Ireland’s claim to Northern Ireland. A year after the agreement, several key provisions of the Good Friday Agreement had been implemented. The peace process has since then witnessed long moments of gloom in spite of the ongoing involvements of the British and Irish prime ministers to resolve the situation in Northern Ireland. One of the largest obstacles was the disarmament of the IRA and the reservations on the part of the Ulster Unionists to share power with Sinn Féin, the political arm of the IRA. Finally, in May 2000, the IRA proposed that outside observers be shown the contents of arms dumps and reinspect them at regular intervals to ensure that weaponry had not been removed and was back in circulation. The Ulster Unionists agreed to power-sharing arrangements and to endorse devolution of Northern Ireland. Decommissioning of the IRA did not progress in early 2001, however, and David Trimble, the first minister of the power-sharing government, resigned in July 2001. Sinn Féin’s offices at Stormont, the Northern Ireland Assembly, were raided by the police in October 2002, due to spying allegations. On 14 October 2002, devolution was suspended and direct rule from London returned to Northern Ireland. Elections planned for the assembly in May 2003 were indefinitely postponed by British Prime

Minister Tony Blair, due to a lack of evidence of peaceful intentions on the part of the IRA.

In March 2002, Irish voters rejected a referendum proposal that would further restrict abortion laws. The vote was 50.4% against the proposal and 49.6% in favor. The vote was a setback to Prime Minister Bertie Ahern. However, Ahern’s Fianna Fáil party overwhelmingly defeated the opposition Fine Gael party in the May 2002 elections. Ireland, unlike the UK, joined the European economic and monetary union in 1999 without problem, and adopted the euro as its currency. However, Irish voters in June 2001 rejected the Treaty of Nice, which allows for the enlargement of the EU. The other 14 members of the EU all approved the treaty by parliamentary vote, but Ireland’s adoption required amending the constitution, which stipulated a popular vote. Voter turnout was low (34.8%), and when the treaty was put to Irish voters once again in October 2002, the government conducted a massive education campaign to bring voters to the polls. This time, voter turnout was 48.5%, and 63% of voters in the October referendum approved the Nice Treaty. Ten new EU candidate countries are due to join the body on 1 May 2004.

### 13 GOVERNMENT

Under the constitution of 1937, as amended, legislative power is vested in the Oireachtas (national parliament), which consists of the president and two houses—Dáil Éireann (house of representatives) and Seanad Éireann (senate)—and sits in Dublin, the capital city. The president is elected by popular vote for seven years. Members of the Dáil, who are also elected by popular suffrage, using the single transferable vote, represent constituencies determined by law and serve five-year terms. These constituencies, none of which may return fewer than three members, must be revised at least once every 12 years, and the ratio between the number of members to be elected for each constituency and its population as ascertained at the last census must be the same, as far as practicable, throughout the country. Since 1981, there have been 166 seats in the Dáil.

The Seanad consists of 60 members: 49 elected from five panels of candidates representing (a) industry and commerce, (b) agricultural and allied interests and fisheries, (c) labor, (d) cultural and educational interests, and (e) public administration and social services; 6 elected by the universities; and 11 nominated by the taoiseach (prime minister). Elections for the Seanad must be held within 90 days of the dissolution of the Dáil; the electorate consists of members of the outgoing Seanad, members of the incoming Dáil, members of county councils, and county borough authorities. The taoiseach is assisted by a tánaiste (deputy prime minister) and at least six but not more than 14 other ministers. The constitution provides for popular referendums on certain bills of national importance passed by the Oireachtas. Suffrage is universal at age 18.

### 14 POLITICAL PARTIES

The major political parties are the Fianna Fáil, the Fine Gael, Labour, and the Progressive Democrats. Because the members of the Dáil are elected by a proportional representation system, smaller parties have also at times won representation in the Oireachtas. In 1986, Sinn Féin, the political arm of the Provisional IRA, ended its 65-year boycott of the Dáil and registered as a political party winning one seat in the Dáil in the 6 June 1997 elections.

Fianna Fáil, the Republican party, was founded by Éamon de Valera. When the Anglo-Irish Treaty of 1921 was signed, de Valera violently opposed the dominion status accepted by a close vote of the Dáil. Until 1927, when the government threatened to annul their election if they did not fulfill their mandates, de Valera and his followers boycotted the Dáil and refused to take an oath of allegiance to the English crown. In 1932, however, de Valera became prime minister, a position he held continuously

until 1947 and intermittently until 1959, when he became president for the first of two terms. From 1932 to 1973, when it lost its majority to a Fine Gael–Labour coalition, Fianna Fáil was in power for all but six years.

Fine Gael is the present name for the party that grew out of the policies of Arthur Griffith, first president of the Irish Free State, and Michael Collins, first minister for finance and commander-in-chief of the army. W. T. Cosgrave, their successor, accepted the conditions of the 1921 treaty as the best then obtainable and worked out the details of the partition boundary and dominion status. This party held power from the first general election of 1922 until 1932. Since 1948, as the principal opponent of Fianna Fáil, it has provided leadership for several coalition governments. The policies of Fine Gael traditionally have been far more moderate than those of Fianna Fáil, although it was an interparty coalition government dominated by Fine Gael and Labour that voted Ireland out of the Commonwealth in 1948.

In the general elections of 24 November 1982 (the third general election to be held within a year and a half), Fianna Fáil won 75 seats, Fine Gael 70, and the Labour Party 16. Two members of the Workers' Party and three independents were also elected. Garret FitzGerald was elected taoiseach, heading a Fine Gael-Labour coalition. It was the second time in a year that he had replaced Charles J. Haughey of the Fianna Fáil in that office. In December 1979, Haughey had replaced Jack Lynch as head of his party and become prime minister.

The 1987 elections saw Fianna Fáil raise its representation to 81 seats, three short of an overall majority in the 27th Dáil. Fianna Fáil's proportion of the vote dropped to 44.1%, from 45.2% in 1982. Fine Gael won 51 seats in the 1987 contest; its 27.1% of the vote was 12.1 percentage points lower than in 1982. The Progressive Democrats, who had held 5 seats at dissolution, elected 14 representatives and took 11.9% of the vote. Labour won 12 seats (down 2) and 6.5% of the vote. The Workers' Party doubled its representation, from 2 to 4, and other parties elected 4 members. In a bitter contest, Charles Haughey was elected taoiseach and formed a minority Fianna Fáil government.

An early general election in 1992 saw the two largest parties—Fianna Fáil and Fine Gael—lose seats to the Labour Party. The results were as follows: Fianna Fáil (68), Fine Gael (45), Labour Party (33), Progressive Democrats (10), Democratic Left (4), and others (6). Albert Reynolds (Fianna Fáil) was elected taoiseach of the Fianna Fáil-Labour Coalition.

In the 6 June 1997 general election, a center-right alliance led by Bertie Ahern, leader of Fianna Fáil, defeated Prime Minister John Bruton's three party left-of-center coalition. Although Bruton's own party, Fine Gael, increased its share of the vote by 3.5% winning 54 seats, its coalition partners, the Labour Party and the Democratic Left, both lost seats. Fianna Fáil won 77 seats outright, six shy of the 83 required for a majority. Other parties winning seats were Labor (17), Democratic Left (4), Progressive Democrats (4), Greens (2), Sinn Féin (1), Socialists (1), and Independents (6). Fianna Fáil joined with the Progressive Democrats and Independents to form a new government with Bertie Ahern as taoiseach (prime minister). In 1999, the Labour Party and the Democratic Left merged and the new party is called the Labour Party. The electoral significance of this realignment of the left is not yet clear, but the merger provides the Irish electorate with a more viable social democratic alternative to the governing coalition.

Bertie Ahern remained prime minister after Fianna Fáil won 41.5% of the vote on 16 May 2002, capturing 81 seats in the Dáil. Fine Gael won 22.5% of the vote and 31 seats, its worst defeat in 70 years. The Labour Party took 10.8% of the vote and 21 seats. Other parties winning seats were the Progressive Democrats (8), the Greens (6), Sinn Féin (5), the Socialist Party (1), and Independents (13).

## <sup>15</sup>LOCAL GOVERNMENT

The provinces of Ulster, Munster, Leinster, and Connacht no longer serve as political divisions, but each is divided into a number of counties that do. Prior to the passage of the new Local Government Act of 2001 and its implementation in 2002, Ireland was divided into 29 county councils, 5 boroughs, 5 boroughs governed by municipal corporations, 49 urban district councils, and 26 boards of town commissioners. Under the new system, the county councils remain the same, but the corporations no longer exist. The cities of Dublin, Cork, Limerick, Waterford, and Galway are city councils, while Drogheda, Wexford, Kilkenny, Sligo, and Clonmel are the five borough councils. The urban district councils and town commissions are now one and the same and known as town councils, of which there are 75.

Local authorities' principal functions include planning and development, housing, roads, and sanitary and environmental services. Health services, which were administered by local authorities up to 1971, are now administered by regional health boards, although the local authorities still continue to pay part of the cost. Expenditures are financed by a local tax on the occupation of property (rates), by grants and subsidies from the central government, and by charges made for certain services. Capital expenditure is financed mainly by borrowing from the Local Loans Fund, operated by the central government, and from banking and insurance institutions.

## <sup>16</sup>JUDICIAL SYSTEM

Responsibility for law enforcement is in the hands of a commissioner, responsible to the Department of Justice, who controls an unarmed police force known as the civil guard (Garda Síochána). Justice is administered by a Supreme Court, a High Court with full original jurisdiction, 8 circuit courts and 23 district courts with local and limited jurisdiction. Judges are appointed by the president on the advice of the government.

Individual liberties are protected by the 1937 constitution and by Supreme Court decisions. The constitution provides for the creation of "special courts" to handle cases which cannot be adequately managed by the ordinary court system. The Offenses Against the State Act formally established a special court to hear cases involving political violence by terrorist groups. In such cases, in order to prevent intimidation, the panel of judges sits in place of a jury.

The judiciary is independent and provides a fair, efficient judicial process. The Supreme Court has affirmed that the inviolability of personal privacy and home must be respected in law and practice. This is fully respected by the government. Revelations about corruption by leading politicians forced the government to set up an independent tribunal. It investigated payments to politicians, especially to the former prime minister Charles Haughey, who was a recipient of large sums of money from businessmen for his personal use.

A former judge, Hugh O'Flaherty, was forced to resign from the Supreme Court over his handling of a dangerous driving case in 1999. His case provoked much public outrage after it was discovered that the government quickly boosted his annual pension prior to his resignation.

## <sup>17</sup>ARMED FORCES

The army and its reserves, the air corps, and the naval service are a small but well-trained nucleus that can be enlarged in a time of emergency. In 2002, the active defense force numbered 10,460 including 200 women, with reserves numbering 14,800. The army of 8,500 consisted of 9 infantry battalions armed with 14 Scorpion Tanks. A navy of 1,100 manned eight patrol craft. The air corps consisted of 860 personnel. Ireland provided support to 11 peacekeeping operations. The defense budget in 2000–2001 was \$700 million, or 0.9% of GDP.

## 18 INTERNATIONAL COOPERATION

Ireland, which became a member of the UN on 14 December 1955, belongs to ECE and all the nonregional specialized agencies. Irish troops have served in the Congo with UNOC, in Cyprus with UNFICYP, with UNEF in the Middle East, with UNIFIL in Lebanon, and with various other UN forces. On 1 January 1973, Ireland became a member of the EU. Ireland is also a founding member of OECD and the Council of Europe, a signatory of the Law of the Sea, and a member of the WTO.

## 19 ECONOMY

Until the 1950s, Ireland had a predominantly agricultural economy, with agriculture making the largest contribution to the GNP. However, liberal trade policies and the drive for industrialization stimulated economic expansion. In 1958, agriculture accounted for 21% of the GNP, industry 23.5%, and other sectors 55.5%. By 2001, however, agriculture accounted for only 4% of the total, industry 36%, and services 60%.

Ireland's economy was initially slower in developing than the economies of other West European countries. The government carried on a comprehensive public investment program, particularly in housing, public welfare, communications, transportation, new industries, and electric power. Since the 1960s, the government tried to stimulate output, particularly of goods for the export market, and manufactured exports grew from £78.4 million in 1967 to £11,510 million in 1992.

During the early 1980s, Ireland suffered considerably from the worldwide recession, experiencing double-digit inflation and high unemployment. The economy continued to lag through 1986, but the GNP grew 30% between 1987 and 1992, and continued at a yearly pace of about 7.5% until 1996 when it was expected to slow to about 5.25%. However, the Irish economy grew faster than any other in the European Union during the so-called "Celtic Tiger" years of the second half of the 1990s, when growth rates were in double digits. The good economic performance was mainly due to strong consumer and investor confidence and strong export opportunities. Ireland suffered from the global economic slowdown that began in 2001, however, and the country's economic growth was forecast for 3% in 2003 and 4% in 2004. Tax increases were expected for both 2003 and 2004 as the country was in a weaker budgetary position in 2003.

Although substantially lower than in 1986 when it topped 18%, unemployment remained high until 1998, when it dropped to 7.7%. It was expected to rise from 5.3% in 2003 to 5.5% in 2004. The inflation rate stood at 2.4% in 1998 and was forecast to average 4.3% in 2003 and 3.3% in 2004.

Ireland has depended on substantial financial assistance from the European Union designed to raise the per capita gross national product to the EU average. Almost \$11 billion was allocated for the period 1993–99 from the EU's Structural and Cohesion Funds. During the 1990s, living standards rose from 56% to 87% of the EU average. Services, pharmaceuticals, and information technology are important sectors of the economy in the 21st century.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Ireland's gross domestic product (GDP) was estimated at \$111.3 billion. The per capita GDP was estimated at \$28,500. The annual growth rate of GDP was estimated at 3.9%. The average inflation rate in 2002 was 4.6%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 4% of GDP, industry 36%, and services 60%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$55 million or about \$15 per capita and accounted for approximately 0.1% of GDP. Worker remittances in 2001 totaled \$53.71 million.

The World Bank reports that in 2000 per capita household consumption (in constant 1995 US dollars) was \$13,936. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 9%. Approximately 21% of household consumption was spent on food, 10% on fuel, 4% on health care, and 7% on education. The richest 10% of the population accounted for approximately 27.4% of household consumption and the poorest 10% approximately 2.5%. It was estimated that in 1997 about 10% of the population had incomes below the poverty line.

## 21 LABOR

In 2001, the workforce was estimated at 11.8 million. Of those employed in 2000, 8% were in agriculture, 28% in industry, and 64% in services. The estimated unemployment rate in 2002 was 4.7%.

The right to join a union is protected by law, and as of 2002, about 31% of the labor force were union members. The Irish Congress of Trade Unions (ICTU) represents 64 unions and is independent of political parties and the government. The right to strike, except for police and military personnel, is exercised in both the public and private sectors. Employers are legally prohibited from discriminating against those who participate in union activity. Collective bargaining is used to determine wages and other conditions of employment.

Children under age 16 are legally prohibited from engaging in regular, full-time work. Under certain restrictions, some part-time or educational work may be given to 14 and 15 year olds. Violations of child labor laws are not common. The standard workweek is 39 hours, and the legal limit on industrial work is nine hours per day and 48 hours per week. A national minimum wage of \$5.45 went into effect in 2001.

## 22 AGRICULTURE

About 1,346,000 ha (3,326,000 acres), or 19.5% of the total area, were devoted to growing crops in 1998. About 6% of the agricultural acreage is used for growing cereals, 1.5% for growing root and green crops, and the balance for pasture and hay. Thus most of the farmland is used to support livestock, the leading source of Ireland's exports. Most farms are small, although there has been a trend toward consolidation. In 1999, agriculture accounted for 8% of Irish employment. Principal crops (with their estimated 1999 production) include barley, 1,278,000 tons; sugar beets, 1,712,000 tons; potatoes, 559,000 tons; wheat, 597,000 tons; and oats, 136,000 tons.

Over half of agricultural production, by value, is exported. The benefits of the EU's Common Agricultural Policy, which provides secure markets and improved prices for most major agricultural products, account in part for the increase of Ireland's agricultural income from £314 million in 1972 (before Ireland's accession) to £1,919.9 million in 1995. The estimated value of agricultural output was e1.1 billion in 2001.

The government operates a comprehensive network of services within the framework of the Common Agricultural Policy, including educational and advisory services to farmers. Under a farm modernization scheme, capital assistance is provided to farmers for land development, improvement of farm buildings, and other projects, with part of the cost borne by the EU. In 1974, pursuant to an European Community directive, incentives were made available to farmers wishing to retire and make their lands available, by lease or sale, for the land reform program.



## 23 ANIMAL HUSBANDRY

With some 90% of Ireland's agricultural land devoted to pasture and hay, the main activity of the farming community is the production of grazing animals and other livestock, which account for about 53% of agricultural exports. In 2001, total livestock output was valued at €2 billion, with cattle and milk each accounting for around 40%. In 1999, livestock output was up 2.9% from 1990.

The estimated livestock population in 2001 was 7,264,000 head of cattle (including 1.3 million dairy cows), 7,498,000, 1,764,000 pigs, and 13,211,000 poultry. In 2001, butter production was estimated at 129,000 tons, cheese 127,000 tons, and wool (greasy) 12,000 tons. Milk production in 2001 was 5,345,000 tons.

Since livestock is a major element in the country's economy, the government is particularly concerned with improving methods of operation and increasing output. A campaign for eradication of bovine tuberculosis was completed in 1965, and programs are under way for eradication of bovine brucellosis, warble fly, and sheep scab.

## 24 FISHING

Salmon, eels, trout, pike, perch, and other freshwater fish are found in the rivers and lakes; sea angling is good along the entire coast; and deep-sea fishing is done from the south and west coasts. The fishing industry has made considerable progress as a result of government measures to improve credit facilities for the purchase of fishing boats and the development of harbors; establishment of training programs for fishermen; increased emphasis on market development and research; establishment of hatcheries; and promotion of sport fishing as an attraction for tourists. The Irish fishing fleet consisted of 1,156 vessels with 55,093 GRT at the start of 1998.

Leading varieties of saltwater fish are mackerel, herring, cod, whiting, plaice, ray, skate, and haddock. Lobsters, crawfish, and Dublin Bay prawns are also important. In 2001, the value of fish production was €206.6 million, up 8.8% from 1999. The marine catch accounted for 70% of the value. The total catch in 2001 was 192,342 tons. Mackerel, herring, and blue whiting accounted for 27% of the volume that year.

## 25 FORESTRY

Once well forested, Ireland was stripped of timber in the 17th and 18th centuries by absentee landlords, who made no attempt to reforest the denuded land, and later by the steady conversion of natural forest into farms and grazing lands. In an effort to restore part of the woodland areas, a state forestry program was inaugurated in 1903; since then, over 350,000 ha (865,000 acres) have been planted. More than half the planting is carried out in the western counties. In 2000, about 9.6% of Ireland was forested; about 95% of the trees planted are coniferous. The aim of the forestry program is to eliminate a large part of timber imports—a major drain on the balance of payments—and to produce a surplus of natural and processed timber for export. Roundwood removals totaled 2.67 million cu m (94 million cu ft) in 2000.

## 26 MINING

Ireland was a leading European producer of zinc in 2001, and an important producer of lead, alumina, and peat. Interest in gold, lead, and zinc has revitalized exploration activity in the last few years, resulting in the development of new zinc and lead mines. In 2001 Ireland had its 10th consecutive year of economic growth, during which GDP grew at an average rate of 8%. Mineral production in 2001 included zinc, 225,136 tons, compared to 262,877 in 2000 and 180,951 in 1998; lead, 44.5 million tons, compared to 67 in 1996, 36.5 in 1998, and 57.8 in 2000; and

alumina, 1.2 million tons. Other commercially exploited minerals were silver, barite, hydraulic cement, clays for cement, fire clay, granite, gypsum, lime, limestone, marble, sand and gravel, rock sand, silica rock, shales, slate, dolomite, diatomite, building stone, and aggregate building materials. Zinc production centered on three zinc-lead mines, the Lisheen (a joint venture of Anglo American PLC and Ivernia West PLC), the Galmoy (Arcon International Resources PLC), and the Tara (Outokumpu Oyj), three of Europe's most modern mines. Outokumpu announced that because of low zinc prices, it was closing the Tara Mine (at Navan, County Meath), the largest lead-zinc field in Europe, and putting it on care and maintenance; the Tara came into production in the late 1970s. The Galmoy Mine was producing 650,000 tons per year of ore at target grades of 11.3% zinc and 1% lead, and the Lisheen Mine, which mined its first ore in 1999 and began commercial production in 2001, initially planned to produce 160,000 tons per year of zinc concentrate, to be increased to 330,000 tons per year of zinc concentrate and 40,000 tons per year of lead in concentrate at full production; both were on the Rathdowney Trend mineralized belt, southwest of Dublin. Cambridge Mineral Resources PLC continued diamond and sapphire exploration work, identifying numerous diamond indicator minerals and recovering significant quantities of ruby and sapphire. Gold was discovered in County Mayo in 1989, with an estimated 498,000 tons of ore at 1.5 grams per ton of gold. There was a marked increase in mining exploration beginning in the early 1960s, resulting in Ireland becoming a significant source of base metals.

## 27 ENERGY AND POWER

Electric power is controlled by the government through the Electricity Supply Board (ESB), established in 1927. Government policy has been to provide adequate energy to meet industrial, commercial, and private domestic needs from native resources. Hydroelectric plants have been built on the Shannon, Lee, Liffey, and Erne rivers. Turf or peat from the extensive Irish bogs supplies the staple fuel for many homes and is utilized as intermediate fuel for electricity production.

Of all European Union (EU) members, Ireland is still the most dependent on imported oil. Exploratory drilling in the Irish sector of the Atlantic Ocean began in 1973. By midyear, the Kinsale Head natural gas field, estimated to contain reserves of 1.5 billion cu ft, was discovered about 50 km (30 mi) south of Cork. Production of natural gas began in 1978 but was expected to be exhausted by the turn of the century. The UK has guaranteed a continued supply. Production from the Kinsale field met an estimated 21% of Ireland's fuel needs in 1995. The Ballycotton natural gas field, in the vicinity of the Kinsale Field, was under development in 1991.

Total installed capacity as of 2001 was 4,413,000 kW; total power production in 2000 was 22,300 million kWh, of which about 95% was from fossil fuels, mostly thermal coal and oil stations, under 4% from hydropower, and the rest from other sources. In 2000, 60% of Ireland's total energy consumption came from petroleum, 26% from natural gas, 13% from coal, and 1% from hydroelectric power. Coal production consists of high-ash semibituminous from the Connaught Field, and is used for electricity production. By the beginning of the 1980s, Ireland's rural electrification program was virtually complete.

## 28 INDUSTRY

Since the establishment of the Irish Free State, successive governments encouraged industrialization by granting tariff protection and promoting diversification. Following the launching of the First Program for Economic Expansion by the government in 1958, considerable progress was made in developing this sector of the economy, in which foreign industrialists played a significant role. The Industrial

Development Authority (IDA) administers a scheme of incentives to attract foreign investment. In addition, several government agencies offer facilities for consulting on research and development, marketing, exporting, and other management matters.

Official policy favors private enterprises. Where private capital and interest were lacking, the state created firms to operate essential services and to stimulate further industrial development, notably in the fields of sugar, peat, electricity, steel, fertilizers, industrial alcohol, and transportation. Although efforts have been made to encourage decentralization, about half of all industrial establishments and personnel are concentrated in Dublin and Cork.

Industry grew by an average annual rate of more than 5% from 1968 to 1981, and peaked at 12% in 1984 before subsiding to an annual rate of about 4%. The greatest growth was in high technology industries, like electronics and pharmaceuticals, where labor productivity also was growing substantially, thus limiting increases in the number of jobs. The most important products of manufacturing, by gross output, are food, metal, and engineering goods, chemicals and chemical products, beverages and tobacco, nonmetallic minerals, and paper and printing. The making of glass and crystal are also important industries. Industrial production continued to grow into the late 1990s, the "Celtic Tiger" years, posting a 15.8% growth in 1998.

Industry employed 28% of the labor force in 2000, and accounted for 36% of GDP in 2001. The value of industry output in 2000 was 12.3% higher than in 1999. Computer and pharmaceutical enterprises, largely owned by foreign companies, were responsible for high manufacturing output in 2000. Although there is no formal governmental privatization plan, the government planned to privatize the state-owned natural gas distributor (Bord Gas), the state-owned airline (Aer Lingus), and the state-owned electricity distributor (ESB) as of 2002.

## 29 SCIENCE AND TECHNOLOGY

The major organizations doing scientific research in Ireland are the Agricultural Institute (established in 1958) and the Institute for Industrial Research and Standards (1946). The Dublin Institute of Advanced Studies, established by the state in 1940, includes a School of Theoretical Physics and a School of Cosmic Physics. The Royal Irish Academy, founded in 1785 and headquartered in Dublin, promotes study in science and the humanities and is the principal vehicle for Ireland's participation in international scientific unions; it has sections for mathematical and physical sciences and for biology and the environment.

The Royal Dublin Society (founded in 1731) promotes the advancement of agriculture, industry, science, and art. Ireland has 13 other specialized learned societies concerned with agriculture, medicine, science, and technology. Major scientific facilities include the Dinsink Observatory (founded in 1785) and the National Botanic Gardens (founded in 1795), both in Dublin.

Most scientific research is funded by the government; the government advisory and coordinating body on scientific matters is the National Board for Science and Technology. Medical research is supported by the Medical Research Council and Medico-Social Research Board. Veterinary and cereals research is promoted by the Department of Agriculture. The Department of Fisheries and Forestry and the Department of Industry and Energy have developed their own research programs. The UNESCO prize in science was awarded in 1981 for the development of clofazimine, a leprosy drug produced by the Medical Research Council of Ireland with aid from the Development Cooperation Division of the Department of Foreign Affairs.

In 1998, high-tech exports were valued at \$23.9 billion and accounted for 45% of manufactured exports. Research and development expenditures in 1987–97 totaled 1.6% of GNP.

Some 2,319 scientists and engineers and 506 technicians per one million people were engaged that year in research and development. Ireland has 21 universities and colleges that offer courses in basic and applied science. In 1987–97, science and engineering students accounted for 31% of university enrollment.

## 30 DOMESTIC TRADE

Dublin is the financial and commercial center, the distribution point for most imported goods, and the port through which most of the country's agricultural products are shipped to Britain and the Continent. Cork, the second-largest manufacturing city and close to the transatlantic port of Cobh, is also important, as is Limerick, with its proximity to Shannon International Airport. Other important local marketing centers are Galway, Drogheda, Dundalk, Sligo, and Waterford.

The trend in retail establishments is changing from small shops owned and operated by individuals to larger department stores, outlets, and chain stores operated by management companies. As of 2002, there were about 52,000 retail and 2,500 wholesale outlets across the country. There were about 9,000 retail food outlets. A 21% value added tax applies to most goods and services.

Office business hours are usually 9 or 9:30 AM to 5:30 PM. Shops are generally open from 9 AM to 6 PM, although most supermarkets are open until 9 PM on Thursday and Friday. In general, banking hours are 10 AM to 12:30 PM and 1:30 to 4 PM, Monday through Friday, and 3 to 5 PM on Thursday. Most offices are closed on Saturday, and shops close on either Wednesday or Saturday afternoon. Businesses may close for extended periods during the months of July and August.

## 31 FOREIGN TRADE

Computers and office products have become some of Ireland's most profitable export products (28%). The country also manufactures musical instruments (5.2%), making 12.7% of the world's exports. Other export items include chemicals like nitrogen compounds (10.9%), electronic circuitry (5.2%), and medicines (4.9%).

In 2000 Ireland's imports were distributed among the following categories:

Consumer goods	12.8%
Food	5.0%
Fuels	4.0%
Industrial supplies	17.7%
Machinery	43.8%
Transportation	10.6%
Other	6.1%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United Kingdom	16,659	15,866	793
United States	13,103	8,431	4,672
Germany	8,633	2,947	5,686
France	5,825	2,387	3,438
Netherlands	4,234	1,614	2,620
Belgium	3,662	785	2,877
Italy	3,058	1,126	1,932
Japan	2,878	2,436	442
Spain	1,883	677	1,206
Switzerland	1,876	353	1,523

## 32 BALANCE OF PAYMENTS

The volume of Irish exports increased dramatically over the 1995–2000 period, registering average annual growth of 16.9%; the rate of import growth over the same period was only slightly lower at 16.6%. The year 2000 was the first since 1991 that the

current account was not in surplus. The reduction of the balance of payments surplus in the early 2000s suggested that the level of Irish imports was increasing due to increased demand for luxury items and services, rather than from a decline in exports. Irish export growth during those years, in fact, consistently surpassed EU growth. However, the slowdown in the global economy and slower than predicted growth in the euro area was expected to negatively impact Irish exports. The current account was forecast to return to a surplus in 2004 due to an improved EU and world economy.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Ireland's exports was \$85.3 billion while imports totaled \$48.3 billion resulting in a trade surplus of \$37 billion.

The International Monetary Fund (IMF) reports that in 2001 Ireland had exports of goods and services totaling \$78.4 billion and imports totaling \$48.4 billion. The services credit totaled \$20.2 billion and debit \$34.9 billion. The following table summarizes Ireland's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-1,043</b>
Balance on goods	30,003
Balance on services	-14,659
Balance on income	-16,865
Current transfers	477
<b>Capital Account</b>	<b>598</b>
<b>Financial Account</b>	<b>37</b>
Direct investment abroad	-5,405
Direct investment in Ireland	9,865
Portfolio investment assets	-108,535
Portfolio investment liabilities	91,128
Other investment assets	-12,101
Other investment liabilities	25,033
<b>Net Errors and Omissions</b>	<b>803</b>
<b>Reserves and Related Items</b>	<b>-395</b>

### 33 BANKING AND SECURITIES

In 1979, Ireland joined the European Monetary System, thus severing the 150-year-old tie with the British pound. The Central Bank of Ireland, established in 1942, is both the monetary authority and the bank of issue. Its role quickly expanded considerably, particularly in monetary policy. Commercial deposits with the Central Bank have strongly increased since 1964, when legislation first permitted it to pay interest on deposits held for purposes other than settlement of clearing balances. Since July 1969, the Central Bank has accepted short-term deposits from various institutions, including commercial and merchant banks. With the advent of the European Monetary Union (EMU) in 1999, authority over monetary policy shifted to the European Central Bank.

The commercial banking sector is dominated by two main Irish-owned groups, the Bank of Ireland Group and the Allied Irish Banks Group. Successive governments have indicated that they would like to see a third banking force (possibly involving a strategic alliance with a foreign bank). Other major banks include the National Irish Bank, a member of the National Australia Bank, and Ulster Bank, a member of the National Westminster Bank Group. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$21.1 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$94.1 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 3.31%.

A number of other commercial, merchant, and industrial banks also operate. Additionally, Ireland's post office operates the Post Office Savings Banks and Trustee Savings Banks. The Irish

stock exchange has its trading floor in Dublin. All stockbrokers in Ireland are members of this exchange. The Irish Stock Exchange is small by international standards, with a total of 76 domestic companies listed at the end of 2001. Total market capitalization at the end of 2001 was (21.8 billion for the government securities market, making it one of the EU's smallest stock markets, however fast-growing.

The Stock Exchange Act came into effect on 4 December 1995, and separated the Dublin Stock Exchange from the London Stock Exchange. Since that date, the Dublin Stock Exchange has been regulated by the Central Bank of Ireland.

### 34 INSURANCE

Insurance firms must be licensed by the Insurance Division of the Ministry of Industry, Trade, Commerce, and Tourism. The regulatory body is the Irish Brokers' Association. The Insurance Acts of 1936 and 1989 outline the monitoring of insurers, brokers, and agents.

In Ireland, workers' compensation, third-party automobile, bodily injury, and property damage liability are compulsory. In 1997, shareholders of Irish Life, Ireland's largest life assurance company, unanimously approved the company's £100 million (\$163 million) takeover of an Illinois life assurance company, Guarantee Reserve.

### 35 PUBLIC FINANCE

Ireland's fiscal year follows the calendar year. Expenditures of local authorities are principally for health, roads, housing, and social welfare.

The US Central Intelligence Agency (CIA) estimates that in 2001 Ireland's central government took in revenues of approximately \$34 billion and had expenditures of \$27 billion. Overall, the government registered a surplus of approximately \$7 billion. External debt totaled \$11 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>34,000</b>
Tax revenue	91.0%	30,938
Non-tax revenue	3.8%	1,292
Grants	5.2%	1,770
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>27,000</b>
General public services	9.0%	2,438
Defense	2.9%	784
Education	13.6%	3,668
Health	16.3%	4,391
Social security	25.9%	7,002
Housing and community amenities	2.1%	567
Recreation, cultural, and religious affairs	0.7%	184
Economic affairs and services	16.7%	4,503
Interest payments	12.8%	3,463

### 36 TAXATION

To stimulate economic expansion and encourage investment in Irish industry, particularly in the area of industrial exports, tax adjustments have been made to give relief to export profits, expenditures for mineral development, shipping, plant and machinery, new industrial buildings, and investments in Irish securities. As of 1 January 2003, with Ireland's accession to the EU, the government had mostly completed the transition of the tax regime from an incentive regime to a low, single-tax regime with 12.5% as the country's rate for most corporate profits. Passive income, including that from interest, royalties, dividends

and rents, is taxed at 25%, and capital gains at 20%. As of 2003, Ireland was party to double-taxation agreements with 42 countries the terms of which provide for the reduction or elimination of many capital income tax rates and related withholding taxes. The incentive 10% corporation tax rate, applied to industrial manufacturing, to projects licensed to operate in the Shannon Airport area, and to a various service operations, was still in effect in 2003, but, in an agreement with the European Commission, was scheduled to be phased out by 2010.

The personal income tax schedule consists of two rates: 20% for taxable income up to €28,000, and 42% on the balance. The standard individual tax credit was €800 in 2003. For those over 65 years old, tax exemptions were increased to €15,000 per person. Deductions were available for mortgage payments, and pension contributions. Since 1969, the government has encouraged artists and writers to live in Ireland by exempting from income tax their earnings from their works of art. Royalties and other income from patent rights are also tax-exempt. The gift and inheritance taxes are 20% above tax-free thresholds that vary according to the relationship of the beneficiary with the donor. Between a parent and child, the tax-free threshold in 2003 was €441,200; for any other lineal descendent, the tax-free threshold was one-tenth this amount, or €44,120; and for any other person, one-twentieth, or €22,060. Land taxes are assessed at variable rates by local governments, and there is a buildings transfer tax ranging from 0.5% to 9% according to the price of the transfer. Stamp duties range from 3% to 6%.

The major indirect tax is Ireland's value-added tax (VAT) instituted 1 January 1972 with a standard rate of 16.37% plus a number of reduced, intermediate, and increased rates. As of 1 March 2002, the standard rate was increased to 21% from 20%, and the reduced rate of 12.5% increased to 13.5% as of 1 January 2003. The reduced rate applies to domestic fuel and power, newspapers, hotels and new housing. Ireland also has an extensive list of goods and services to which a 0% VAT rate is applied including, in 2002, books and pamphlets, gold for the Central Bank, basic foodstuffs and beverages, agricultural supplies, medicines and medical equipment, and, more unusually, children's clothing and footwear, and wax candles. Excise duties are charged on tobacco products, alcohol, fuel, and motor vehicles. Per unit and/or annual stamp taxes are assessed on checks, credit cards, ATM cards, and Laser cards.

### 37 CUSTOMS AND DUTIES

From the time of the establishment of the Irish Free State, government policy was to encourage development of domestic industry by maintaining protective tariffs and quotas on commodities that would compete with Irish-made products. Following Ireland's admission to the European Community (now the European Union), the country's tariff schedule was greatly revised. The schedule vis-à-vis third-world countries and the United States was gradually aligned with EC tariffs and customs duties between Ireland and the EC were phased down to zero by July 1977. Duty rates on manufactured goods from non-EU countries range from 5% to 8%, while most raw materials enter duty-free. Certain goods still require import licenses and tariffs are based on the Harmonized System. The Shannon Free Trade Zone, the oldest official free trade area in the world, is located at the Shannon International Airport.

### 38 FOREIGN INVESTMENT

To stimulate economic expansion, the Industrial Development Authority encourages and facilitates investment by foreign interests, particularly in the development of industries with export potential. Special concessions include nonrepayable grants to help establish industries in underdeveloped areas and tax relief on export profits. Freedom to take out profits is unimpeded.

Engineering goods, computers, electronic products, electrical equipment, pharmaceuticals and chemicals, textiles, foodstuffs, leisure products, and metal and plastic products are among the items produced. Much of the new investment has occurred since Ireland became a member of the European Union.

Annual foreign direct investment (FDI) inflows into Ireland increased steadily through the 1990s. In the period 1988 to 1990, Ireland's share of world FDI inflows was only 70% of its share of world GDP, but for the period 1998 to 2000, Ireland's share of FDI inflows was over five times its share of world GDP. In 1998, annual FDI inflow reached \$11 billion, up from \$2.7 billion in 1997, and then jumped to almost \$15 billion in 1999. FDI inflows to Ireland peaked in 2000, at over \$24 billion, mainly from high-tech computer and pharmaceutical companies. FDI inflow dropped sharply to \$9.8 billion in 2001 with the burst of the dot.com bubble and the global economic slowdown.

Leading sources of foreign investors in terms of percent of foreign companies invested in Ireland have been the United States (43%), the United Kingdom (13%), Germany (13%), other European countries (22%), Japan (4%), and others (5%). As of 2000, the primary destinations of foreign investment have been, in order, manufacturing, finance, and other services.

### 39 ECONOMIC DEVELOPMENT

Government policies are premised on private enterprise as a predominant factor in the economy. Specific economic programs adopted in recent decades have attempted to increase efficiency in agriculture and industry, stimulate new export industries, create employment opportunities for labor leaving the agricultural sector, and reduce unemployment and net emigration. In pursuit of these objectives, the government provides aids to industry through the Industrial Development Authority (IDA), the Industrial Credit Co., and other agencies. Tax concessions, information, and advisory services are also provided.

The IDA seeks to attract foreign investment by offering a 10% maximum corporation tax rate for manufacturing and certain service industries, generous tax-free grants for staff training, ready-built factories on modern industrial estates, accelerated depreciation, export-risk guarantee programs, and other financial inducements. IDA also administers industrial estates at Waterford and Galway. The Shannon Free Airport Development Co., another government-sponsored entity, administers an industrial estate on the fringes of Shannon Airport, a location that benefits from proximity to the airport's duty-free facilities. A third entity, Udaras Na Gaeltachia, promotes investment and development in western areas where Irish is the predominant language. As of 1986 there were some 900 foreign-owned plants in Ireland.

Price control legislation was introduced under the Prices Act of 1958, amended in 1965 and 1972. In general, manufacturers, service industries, and professions are required to obtain permission from the Ministry of Commerce and Trade for any increase. Price changes are monitored by a National Prices Commission, established in 1971. The economic plan for 1983–1987, called *The Way Forward*, aimed at improving the cost-competitiveness of the economy by cutting government expenditures and restraining the growth of public service pay, among other measures. The 1987–1990 Program for National Recovery is generally credited with creating the conditions to bring government spending and the national debt under control. The 1991–1993 Program for Economic and Social Progress was to further reduce the national debt and budget deficit and to establish a schedule of wage increases.

A 1994–1999 national development plan called for investment of £20 billion and aimed to achieve an average annual GDP growth rate of 3.5%. The government hoped to create 200,000 jobs through this plan, with funding by the state, the EU, and the private sector. Half of the money was earmarked for industry, transport, training, and energy.

At the end of the 1990s, Ireland boasted the fastest growing economy in EU with a 9.5% GDP real growth rate in 1998. Total expenditures on imports and exports in 2000 were equivalent to 175% of GDP, far ahead of the EU average, which made Ireland's economy one of the most open in the world. Ireland became known as the "Celtic Tiger," to compare with the formerly fast-growing economies of East Asia prior to the Asian financial crisis of 1997. In 2000, the economy grew by 11.5%, the highest growth rate ever recorded in an OECD member country. Wage inequality has grown, however, and spending on infrastructure has failed to keep pace with social or industrial demands. Corporate taxes were as low as 12.5% in some circumstances in the early 2000s. Economic growth decelerated rapidly in 2001, to 6%. Inflation fell as did housing prices, but they rose again in 2002. Tax increases were expected in 2003 and 2004, and the government was facing pressures to cut spending. GDP growth was forecast for 3% in 2003 and 3.8% in 2004.

#### 40 SOCIAL DEVELOPMENT

A social insurance program exists for all employees and self-employed persons, and for all residents with limited means. The system is financed through employee contributions, employer contributions, and government subsidies. Benefits are available for old age, sickness, disability, survivorship, maternity, work injury, unemployment, and adoptive services. There are also funds available for those leaving the workforce to care for one in need of full time assistance. The system also provides a bereavement and widowed parent's grant. The universal medical care system provides medical services to all residents. There is also a family allowance benefit based on the number of children. The Department of Social, Community, and Family Affairs is responsible for administering payments.

The predominance of the Roman Catholic Church has had a significant impact on social legislation. In 1996, a referendum to pave the way for legalization of divorce under certain circumstances was passed and divorce was set to be legalized in 1996. Contraceptives, the sale of which had been entirely prohibited, became available to married couples by prescription in the early 1980s. In 1985, the need for a prescription was abolished, and the minimum age for marriage was raised from 14 to 18 for girls and from 16 to 18 for boys. Abortion remains illegal.

Women are well-represented in the workforce but generally do not hold senior management positions. Although prohibited by law, discrimination exists in the workplace. The Equality Authority monitors women's rights. There is an insufficient number of childcare facilities, and women earn approximately 15% less than men. The Maternity Protection Act guarantees the right to return to work and 14 weeks of paid leave to women after the birth of a child. Unpaid leave is provided for to both the mother and father by the Parental Leave Act. Domestic abuse and spousal violence remain serious problems. The government addresses the issue of child abuse, and funds systems to promote child welfare.

The government attempts to curb discrimination against foreign workers and the ethnic community known as "Travellers". There have been reports of racially motivated incidents including violence and intimidation.

#### 41 HEALTH

Health services are provided by regional boards under the administration and control of the Department of Health. A comprehensive health service, with free hospitalization, treatment, and medication, is provided for low-income groups. The middle-income population is entitled to free maternity, hospital, and specialist services, and a free diagnostic and preventive service is available to all persons suffering from specified infectious diseases. Insurance against hospital and

certain other medical expenses is available under a voluntary plan introduced in 1957.

Since World War II, many new regional and county hospitals and tuberculosis sanatoriums have been built. As of 1999, there were an estimated 2.3 physicians and 3.7 hospital beds per 1,000 people.

While deaths from cancer, particularly lung cancer, and heart disease are rising, those from many other causes have been decreasing rapidly. Infant mortality has been reduced from 50.3 per 1,000 live births in 1948 to 6 in 2000. Tuberculosis, long a major cause of adult deaths, declined from 3,700 cases in 1947 to only 15 per 100,000 in 1999. Average life expectancy at birth in 2000 was 76 years. The general mortality rate was an estimated 8 per 1,000 people as of 2002. Tobacco consumption decreased from 2.4 kg (5.3 lbs) during 1984–86 to 2.2 kg (4.9 lbs) a year per adult in 1995. In 1993, the major causes of death per 100,000 people were: heart and circulatory disease (399.2), cancer (211.5), and ischemic heart disease (218.7). Heart disease rates were higher than average for highly industrialized countries. Between 1990–93, the likelihood of dying after age 65 of heart disease was 349 (for men) and 324 (for women) per 1,000 people.

In 1994 children up to one year old were immunized as follows: diphtheria, pertussis, and tetanus, 65%; polio, 63%; and measles, 78%.

As of 1999, the number of people living with HIV/AIDS was estimated at 2,200 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.1 per 100 adults.

#### 42 HOUSING

The aim of public housing policy is to ensure, so far as possible, that every family can obtain decent housing at a price or rent it can afford. Government subsidies are given to encourage home ownership, and local authorities provide housing for those unable to house themselves adequately. Housing legislation has encouraged private construction through grants and loans. Projected and existing housing needs are assessed regularly by local authorities, and their reports are the basis for local building programs, which are integrated with national programs and reconciled with available public resources.

In 2002, 51,932 new private dwellings and 5,763 social housing buildings were built.

#### 43 EDUCATION

The Department of Education administers primary and post-primary education. Six years of primary education are free and education is compulsory for nine years. Post-primary education is free in over 90% of voluntary secondary day schools and in all vocational, comprehensive, and community schools. All secondary schools are private, and many are operated by religious orders. Most post-primary education is single-sex. The Department of Education makes grants and allowances to secondary and vocational schools, as well as to colleges, for training teachers of all religious denominations. It also pays the salaries of primary, secondary, comprehensive, and community-school teachers.

In the secondary schools, the Department of Education allocates grants on the basis of pupil enrollment that serve to pay more than 90% of all teachers' salaries. Approximately 90% of the cost of maintaining vocational schools is paid from state funds; the rest is paid by local authorities.

Ireland has two universities: the University of Dublin (Trinity College) and the National University of Ireland, which consists of three constituent colleges in Dublin, Galway, and Cork. St. Patrick's College, Maynooth, is a recognized college of the National University. Universities are self-governing, but each receives an annual state grant, as well as supplementary grants

for capital outlays. There are also various colleges of education, home economics, technology, and the arts.

In 1997, there were 358,830 pupils in primary schools, with 16,202 teachers. The Student-to-teacher ratio stood at 22 to 1. At the secondary level in the same year, 389,353 students were taught by 27,273 teachers. Also in 1997, there were 8,979 teachers and 134,566 students enrolled in higher-level institutions. As of 1999, 90% of primary-school-age children were enrolled in school, while 99.8% of those eligible attended secondary school. Approximately 13.5% of government expenditure was allocated to education in the latter half of the 1990s. As of 1999, public expenditure on education was estimated at 4.5% of GDP.

#### 44 LIBRARIES AND MUSEUMS

Trinity College Library, which dates from 1591 and counts among its many treasures the Book of Kells and the Book of Durrow, two of the most beautiful illuminated manuscripts from the pre-Viking period, is the oldest and largest library in Ireland, with a stock of 4.1 million volumes. Among other libraries in Dublin are the Chester Beatty Library, noted for one of the world's finest collections of Oriental manuscripts and miniatures, the National Library of Ireland, founded in 1877, which houses 500,000 volumes, and University College Dublin library, with more than one million volumes. The Dublin public libraries have holdings of over 1.4 million volumes and have special collections on Jonathan Swift and Yeats; political pamphlets and cartoons; and Dublin periodicals and 18th-century plays. Nationally, the public library system has 351 service points holding a total of 11.2 million volumes as of 1997.

Dublin, the center of cultural life in Ireland, has several museums and a number of libraries. The National Museum contains collections on Irish antiquities, folk life, fine arts, natural history, zoology, and geology. The National Gallery houses valuable paintings representing the various European schools from the 13th century to the present. The National Portrait Gallery provides a visual survey of Irish historical personalities over the past three centuries. The Municipal Gallery of Modern Art has a fine collection of works by recent and contemporary artists. There is a Heraldic Museum in Dublin Castle; the National Botanic Gardens are at Glasnevin; and the Zoological Gardens are in Phoenix Park. There is a James Joyce Museum in Dublin housing personal memorabilia of the great writer, including signed manuscripts. Yeats Tower in Gort displays memorabilia of W. B. Yeats. The Dublin Writers' Museum opened in 1991.

Public libraries and small museums, devoted mostly to local historical exhibits, are found in Cork, Limerick, Waterford, Galway, and other cities.

#### 45 MEDIA

All postal, telegraph, telex, and telephone services are controlled and operated by the government through the Department of Posts and Telegraphs. In 2001 there were approximately 1.6 million main line telephones in use with an additional 2 million mobile cellular phones. An autonomous public corporation, Radio Telefis Éireann, is the Irish national broadcasting organization; on 1 January 1976, this service celebrated 50 years of operation. Ireland's second radio service, Raidió na Gaeltachta, an Irish language broadcast, was inaugurated in 1972; it broadcasts VHF from County Galway. As of 1998, there were 9 AM and 106 FM radio stations. In 2001, at least 43 stations were independent. In 2001 there were 4 television stations. In 2000 there were 7695 radios and 399 television sets for every 1,000 people. About 177 of every 1,000 people subscribed to cable television. The same year, there were about 359 personal computers in use for every 1,000 people, with 22 Internet service providers serving about 1.25 million users in 2001.

In 2001, there were eight independent national newspapers, as well as many local newspapers. There were three major independent current affairs magazines along with hundreds of special interest magazines. Ireland's major newspapers, with political orientation and estimated 2002 circulation, are as follows:

	ORIENTATION	CIRCULATION
DUBLIN		
<i>Sunday Independent</i>	Fine Gael	310,500
<i>Sunday World</i>	Independent	229,000
<i>Irish Independent</i>	Fine Gael	168,200
<i>Irish Times</i>	Independent	119,200
CORK		
<i>Irish Examiner</i>	NA	63,600
<i>Cork Evening Echo</i>	Fine Gael	28,800

Waterford, Limerick, Galway, and many other smaller cities and towns have their own newspapers, most of them weeklies.

The Constitution provides for free speech and a free press; however, government bodies may decree without public hearing or justification any material unfit for distribution on moral grounds. The Office of Film Censor, which rates films and videos before they can be distributed, can ban or require edits of movies which contain content considered to be "indecent, obscene, or blasphemous," or which expresses principles "contrary to public morality." In 2001, 26 videos were banned, primarily for violent or pornographic content.

#### 46 ORGANIZATIONS

There are many types of organizations in Ireland: trade unions and trade organizations, farmers' groups, sport and athletic associations, religious clubs, political clubs, clubs for the preservation and promotion of the Irish language and culture, and societies devoted to art, literature, music, drama, science, and other branches of learning.

The Oldest and best known of the learned societies are the Royal Dublin Society, founded in 1731, and the Royal Irish Academy, founded in 1785. The Royal Irish Academy of Music was added in 1856, the Irish Society of Arts and Commerce in 1911, the Irish Academy of Letters in 1932, and the Arts Council of Ireland in 1951. Many organizations exist for research and study in medicine and science, including the Royal Academy of Medicine in Ireland.

National youth organizations include the Church of Ireland Youth Council, Comhchairdeas (the Irish Workcamp Movement), Confederation of Peace Corps, Federation of Irish Scout Associations, Irish Girl Guides, Student Christian Movement of Ireland, Voluntary Service International, Workers Party Youth, Young Fine Gael, and chapters of YMCA/YWCA. The Irish Sports Council serves as an umbrella organization for numerous athletic organizations both on amateur and professional levels.

Civil rights organizations include the Irish Council for Civil Liberties and the National Women's Council of Ireland. The Consumers Association of Ireland is active in advocating consumer information services. International organizations with chapters in Ireland include the Red Cross and Amnesty International.

#### 47 TOURISM, TRAVEL, AND RECREATION

Among Ireland's numerous ancient and prehistoric sights are a restored Bronze Age lake dwelling (crannog) near Quin in County Clare, burial mounds at Newgrange and Knowth along the Boyne, and the palace at the Hill of Tara, the seat of government up to the Middle Ages. Numerous castles may be visited, including Blarney Castle in County Cork, where visitors kiss the famous Blarney Stone. Some, such as Bunratty Castle and Knappogue Castle, County Clare, and Dungaire Castle, County

Galway, offer medieval-style banquets, and some rent rooms to tourists.

Among Dublin's tourist attractions are the Trinity College Library, with its 8th-century illuminated Book of Kells; Phoenix Park, the largest enclosed park in Western Europe and home of the Dublin Zoo; and literary landmarks associated with such writers as William Butler Yeats, James Joyce, Jonathan Swift, and Oscar Wilde. Dublin has long been noted for its theaters, foremost among them the Abbey Theatre, Ireland's national theater, which was founded in 1904 by Yeats and Lady Gregory. Dublin was the EC's Cultural Capital of Europe for 1991, during which time the National Gallery, Civic Museum, and Municipal Gallery were all refurbished and several new museums opened, including the Irish Museum of Modern Art.

Traditional musical events are held frequently, one of the best known being the All-Ireland Fleadh at Ennis in County Clare. Numerous parades, concerts, and other festivities occur on and around St. Patrick's Day holiday of 17 March. Ireland has numerous golf courses, some of worldwide reputation. Fishing, sailing, horseback riding, hunting, horse racing, and greyhound racing are other popular sports. The traditional sports of Gaelic football, hurling, and camogie (the women's version of hurling) were revived in the 19th century and have become increasingly popular. The All-Ireland Hurling Final and the All-Ireland Football Final are held in September.

Income from tourism and travel has contributed significantly to the net invisible earnings in Ireland's balance of payments. A total of 6,749,000 tourists entered Ireland in 2000. Tourist receipts totaled \$3.3 billion that year. There were 60,000 hotel with a 65% occupancy rate.

The daily cost of staying in Ireland, according to 2001 US government estimates, was between \$122 and \$312 per day.

#### 48 FAMOUS IRISH

A list of famous Irish must begin with St. Patrick (c.385–461), who, though not born in Ireland, represents Ireland to the rest of the world. Among the "saints and scholars" of the 6th to the 8th centuries were St. Columba (521–97), missionary to Scotland; St. Columban (540?–616), who founded monasteries in France and Italy; and Johannes Scotus Erigena (810?–80), a major Neoplatonic philosopher.

For the thousand years after the Viking invasions, the famous names belong to warriors and politicians: Brian Boru (962?–1014), who temporarily united the kings of Ireland and defeated the Vikings; Hugh O'Neill (1547?–1616), Owen Roe O'Neill (1590?–1649), and Patrick Sarsfield (d. 1693), national heroes of the 17th century; and Henry Grattan (1746–1820), Wolf Tone (1763–98), Edward Fitzgerald (1763–98), Robert Emmet (1778–1803), Daniel O'Connell (1775–1847), Michael Davitt (1846–1906), Charles Stewart Parnell (1846–91), Arthur Griffith (1872–1922), Patrick Henry Pearse (1879–1916), and Éamon de Valera (b.US, 1882–1975), who, with many others, fought Ireland's political battles. The politician and statesman Seán MacBride (1904–88) won the Nobel Peace Prize in 1974.

Irishmen who have made outstanding contributions to science and scholarship include Robert Boyle (1627–91), the physicist who defined Boyle's law relating to pressure and volume of gas; Sir William Rowan Hamilton (1805–65), astronomer and mathematician, who developed the theory of quaternions; George Berkeley (1685–1753), philosopher and clergyman; Edward Hincks (1792–1866), discoverer of the Sumerian language; and John Bagnell Bury (1861–1927), classical scholar. The nuclear physicist Ernest T. S. Walton (1903–95) won the Nobel Prize for physics in 1951.

Painters of note include Sir William Orpen (1878–1931), John Butler Yeats (1839–1922), his son Jack Butler Yeats (1871–1957), and Mainie Jellet (1897–1944). Irish musicians include the pianist and composer John Field (1782–1837), the opera

composer Michael William Balfe (1808–70), the tenor John McCormack (1884–1945), and the flutist James Galway (b. Belfast, 1939).

After the Restoration, many brilliant satirists in English literature were born in Ireland, among them Jonathan Swift (1667–1745), dean of St. Patrick's Cathedral in Dublin and creator of *Gulliver's Travels*; Oliver Goldsmith (1730?–74); Richard Brinsley Sheridan (1751–1816); Oscar Fingal O'Flahertie Wills Wilde (1854–1900); and George Bernard Shaw (1856–1950).

Thomas Moore (1779–1852) and James Clarence Mangan (1803–49) wrote patriotic airs, hymns, and love lyrics, while Maria Edgeworth (1767–1849) wrote novels on Irish themes. Half a century later the great literary revival led by Nobel Prize-winning poet-dramatist William Butler Yeats (1865–1939), another son of John Butler Yeats, produced a succession of famous playwrights, poets, novelists, and short-story writers: the dramatists Lady Augusta (Persse) Gregory (1859?–1932), John Millington Synge (1871–1909), Sean O'Casey (1884–1964), and Lennox Robinson (1886–1958); the poets AE (George William Russell, 1867–1935), Oliver St. John Gogarty (1878–1957), Pádraic Colum (1881–1972), James Stephens (1882–1950); Austin Clarke (1890–1974), Thomas Kinsella (b. 1928), and Seamus Heaney (b. 1939); the novelists and short-story writers George Moore (1852–1932), Edward John Moreton Drax Plunkett, 18th baron of Dunsany (1878–1957), Liam O'Flaherty (1896–1984), Seán O'Faoláin (1900–91), Frank O'Connor (Michael O'Donovan, 1903–66), and Flann O'Brien (Brian O'Nolan, 1911–66). Two outstanding authors of novels and plays whose experimental styles have had worldwide influence are James Augustine Joyce (1882–1941), the author of *Ulysses*, and Samuel Beckett (1906–89), recipient of the 1969 Nobel Prize for literature.

The Abbey Theatre, which was the backbone of the literary revival, also produced many outstanding dramatic performers, such as Dudley Digges (1879–1947), Sara Allgood (1883–1950), Arthur Sinclair (1883–1951), Maire O'Neill (Mrs. Arthur Sinclair, 1887–1952), Barry Fitzgerald (William Shields, 1888–1961), and Siobhan McKenna (1923–1986). For many years Douglas Hyde (1860–1949), first president of Ireland (1938–45), spurred on the Irish-speaking theater as playwright, producer, and actor.

#### 49 DEPENDENCIES

Ireland has no territories or colonies.

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# ITALY

Italian Republic  
*Repubblica Italiana*

**CAPITAL:** Rome (Roma)

**FLAG:** The national flag is a tricolor of green, white, and red vertical stripes.

**ANTHEM:** *Fratelli d'Italia (Brothers of Italy)*.

**MONETARY UNIT:** The euro replaced the lira as the official currency in 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Epiphany, 6 January; Liberation Day, 25 April; Labor Day, 1 May; Assumption, 15 August; All Saints' Day, 1 November; National Unity Day, 5 November; Immaculate Conception, 8 December; Christmas, 25 December; St. Stephen's Day, 26 December. Easter Monday is a movable holiday. In addition, each town has a holiday on its Saint's Day.

**TIME:** 1 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in southern Europe, the Italian Republic, including the major islands of Sicily (Sicilia) and Sardinia (Sardegna), covers a land area of 301,230 sq km (116,306 sq mi). Comparatively, the area occupied by Italy is slightly larger than the state of Arizona. The boot-shaped Italian mainland extends into the Mediterranean Sea with a length of 1,185 km (736 mi) SE-NW and a width of 381 km (237 mi) NE-SW. It is bordered on the N by Switzerland and Austria, on the NE by Slovenia, on the E by the Adriatic and Ionian seas, on the W by the Tyrrhenian and Ligurian seas, and on the NW by France, with a total land boundary length of 1,932 km (1,200 mi) and a coastline of 7,600 km (4,712 mi). Situated off the toe of the Italian boot, Sicily has a surface area of 25,708 sq km (9,926 sq mi). Sardinia, which is about 320 km (200 mi) NW of Sicily, covers an area of some 24,090 sq km (9,300 sq mi). Within the frontiers of Italy are the sovereign Republic of San Marino, with an area of 61.2 sq km (23.6 sq mi), and the sovereign state of Vatican City, which covers 44 hectares (108.7 acres).

The long-disputed problem of Trieste, a 518 sq km (200 sq mi) area situated at the head of the Adriatic Sea, between Italy and Yugoslavia, was resolved in 1954, when Italy assumed the administration of Zone A, the city and harbor of Trieste, and Yugoslavia of Zone B, the rural hinterlands of the Istrian Peninsula. A treaty of October 1975 made the partition permanent.

Italy's capital city, Rome, is located in the west-central part of the country.

## <sup>2</sup>TOPOGRAPHY

Except for the fertile Po River Valley in the north and the narrow coastal belts farther south, Italy's mainland is generally mountainous, with considerable seismic activity. During Roman times, the city of Pompeii, near present-day Naples (Napoli), was devastated first by an earthquake in AD 63 and then by the famed eruption of Mt. Vesuvius (1,277 m/4,190 ft) in AD 79. In the last century, an earthquake in northeastern Italy on 6 May 1976 left

more than 900 people dead, and a quake in the south on 23 November 1980 (and subsequent aftershocks) claimed at least 4,500 lives.

The Alpine mountain area in the north along the French and Swiss borders includes three famous lakes—Como, Maggiore, and Garda—and gives rise to six small rivers that flow southward into the Po. Italy's highest peaks are found in the northwest in the Savoy Alps, the Pennines, and the Graian chain. They include Mont Blanc (4,807 m/15,771 ft), on the French border; Monte Rosa (Dufourspitze, 4,634 m/15,203 ft) and the Matterhorn (Monte Cervino, 4,478 m/14,692 ft), on the Swiss border; and Gran Paradiso (4,061 m/13,323 ft). Marmolada (3,342 m/10,965 ft), in northeast Italy, is the highest peak in the Dolomites.

At the foot of the Alps, the Po River, the only large river in Italy, flows from west to east, draining plains covering about 17% of Italy's total area and forming the agricultural and industrial heartland. The Apennines, the rugged backbone of peninsular Italy, rise to form the southern border of the Po Plain. Numerous streams and a few small rivers, including the Arno and the Tiber (Tevere), flow from the Apennines to the west coast. The highest peak on the peninsula is Corvo Grande (2,912 m/9,554 ft). Vesuvius is the only active volcano on the European mainland.

While altitudes are lower in southern Italy, the Calabrian coast is still rugged. Among the narrow, fertile coastal plains, the Plain of Foggia in northern Apulia, which starts along the Adriatic, and the more extensive lowland areas near Naples, Rome, and Livorno (Leghorn) are the most important. The mountainous western coastline forms natural harbors at Naples, Livorno, La Spezia, Genoa (Genova), and Savona, and the low Adriatic coast permits natural ports at Venice (Venezia), Bari, Brindisi, and Taranto.

Sicily, separated from the mainland by the narrow Strait of Messina, has the Madonie Mountains, a continuation of the Apennines, and the Plain of Catania, the largest plain on the island. Mount Etna (3,369 m/11,053 ft) is an isolated and active volcano in the northeast.

Sardinia, in the Tyrrhenian Sea, is generally mountainous and culminates in the peak of Gennargentu (1,834 m/6,017 ft). The largest and most fertile plains are the Campidano in the south and the Ozieri in the north. The principal bay is Porto Torres in the Gulf of Asinara.

### 3 CLIMATE

Climate varies with elevation and region. Generally, however, Italy is included between the annual isotherms of 11°C and 19°C (52°F and 66°F). The coldest period occurs in December and January, the hottest in July and August. In the Po Plain, the average annual temperature is about 13°C (55°F); in Sicily, about 18°C (64°F); and in the coastal lowlands, about 14°C (57°F). The climate of the Po Valley and the Alps is characterized by cold winters, warm summers, and considerable rain, falling mostly in spring and autumn, with snow accumulating heavily in the mountains. The climate of the peninsula and of the islands is Mediterranean, with cool, rainy winters and hot, dry summers. Mean annual rainfall varies from about 50 cm (20 in) per year, on the southeast coast and in Sicily and Sardinia, to over 200 cm (80 in), in the Alps and on some westerly slopes of the Apennines. Frosts are rare in the sheltered western coastal areas, but severe winters are common in the Apennine and Alpine uplands.

### 4 FLORA AND FAUNA

Plants and animals vary with area and altitude. Mountain flora is found above 1,980 m (6,500 ft) in the Alps and above 2,290 m (7,500 ft) in the Apennines. The highest forest belt consists of conifers; beech, oak, and chestnut trees grow on lower mountain slopes. Poplar and willow thrive in the Po Plain. On the peninsula and on the larger islands, Mediterranean vegetation predominates: evergreens, holm oak, cork, juniper, bramble, laurel, myrtle, and dwarf palm.

Although larger mammals are scarce, chamois, ibex, and roe deer are found in the Alps, and bears, chamois, and otters inhabit the Apennines. Ravens and swallows are characteristic birds of Italy. Abundant marine life inhabits the surrounding seas.

### 5 ENVIRONMENT

Italy has been slow to confront its environmental problems. Central government agencies concerned with the environment are the Ministry for Ecology (established in 1983), the Ministry of Culture and Environmental Quality, the National Council for Research, and the Ministry for Coordination of Scientific and Technological Research. Localities also have responsibility for environmental protection, but most of the burden of planning and enforcement falls on regional authorities. The principal antipollution statute is Law No. 319 of 1976 (the Merli Law), which controls the disposal of organic and chemical wastes; enforcement, however, has proved difficult. Air pollution is a significant problem in Italy. United Nations sources estimate that carbon monoxide emissions increased by 12% in the period between 1985 and 1989. In the 1990s Italy had the world's tenth highest level of industrial carbon dioxide emissions, which totaled 407.7 million metric tons per year, a per capita level of 7.03 metric tons. Water pollution is another important environmental issue in Italy. The nation's rivers and coasts have been polluted by industrial and agricultural contaminants and its lakes contaminated by acid rain. In 2001 the nation had 160 cu km of renewable water resources with 53% used in farming activity and 33% used for industrial purposes. Facilities for the treatment and disposal of industrial wastes are inadequate. Italy's cities have produced 19.1 million tons of solid waste per year. In July 1976, the city of Seveso, north of Milan (Milano), gained international attention after an explosion at a small Swiss-owned chemical plant released a cloud of debris contaminated by a toxic by-product, dioxin. More than 1,000 residents were evacuated, and pregnant women were advised to have abortions.

The long-term threat posed by flooding, pollution, erosion, and sinkage to the island city of Venice was highlighted by a disastrous flood in November 1966, which damaged priceless art treasures and manuscripts in Florence (Firenze). The digging of artesian wells in the nearby mainland cities of Mestre and Marghera so lowered the water table that the Venetian islands sank at many times the normal annual rate of 4 mm (0.16 in) a year between 1900 and 1975; with the wells capped as a protective measure, Venice's normal sinkage rate was restored. As of the mid-1980s, however, little effort had been made to control the number and speed of powerboats on the Grand Canal (the churning of whose waters causes buildings to erode), nor had the national government begun to implement a master plan for Venice approved in principle three years earlier. Rome has implemented a project designed, in part, to protect the Roman Forum and other ancient monuments from the vibration and pollution of motor vehicles.

Of Italy's mammal species, 10 are endangered, as well as 7 bird species and 202 plant species. Endangered species include the Italian gray partridge, Italian spadefoot toad, and the scarce large blue and false ringlet butterflies. The Sardinian pika and Spengler's freshwater mussel are extinct.

### 6 POPULATION

The population of Italy in 2003 was estimated by the United Nations at 57,423,000, which placed it as number 22 in population among the 193 nations of the world. In that year approximately 19% of the population was over 65 years of age, with another 14% of the population under 15 years of age. There were 94 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.10%, with the projected population for the year 2015 at 55,507,000. The population density in 2002 was 193 per sq km (499 per sq mi). The Po Valley is one of the most densely populated areas of the country.

It was estimated by the Population Reference Bureau that 67% of the population lived in urban areas in 2001. The capital city, Rome, had a population of 2,685,000 in that year. Other major cities include Milan, 4,251,000; Naples, 3,012,000; Turin (Torino), 1,294,000; Genoa, 890,000; Palermo, 734,238; Bologna, 411,803; and Florence, 778,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.1%.

### 7 MIGRATION

Migration, which traditionally provided relief from overpopulation and unemployment, now represents only a fraction of the millions of Italians who emigrated during the two decades prior to 1914. From 1900 to 1914, 16 of every 1,000 Italians left their homeland each year; by the late 1970s, that proportion had declined to about 1.5 per 1,000. Of the 65,647 Italians who emigrated in 1989, 26,098 went to Germany; 16,347 to Switzerland; 5,277 to France; 4,076 to the United States; and 23,849 to other countries. Immigration in 1989 totaled approximately 81,201 people, of whom West Germans accounted for 13,198. In 1990, 781,100 immigrants lived in Italy. This figure did not include some 600,000 who were believed to be illegal immigrants.

The overall impetus to emigrate has been greatly reduced by economic expansion within Italy itself and by the shrinking job market in other countries, especially Germany. Nevertheless, Germany had 560,100 Italian residents at the end of 1991, and France had 253,679 in 1990. Particularly significant in the first two decades after World War II was the considerable migration from the rural south to the industrial north, but by the mid-1980s, this flow had become insignificant.

In 1998, Italy received a total of 7,112 asylum applications, an increase of over 380% on the 1,858 applications lodged in 1997.



LOCATION: 47°05' to 36°38' N; 6°37' to 18°31' E. BOUNDARY LENGTHS: Switzerland, 744 kilometers (462 miles); Austria, 430 kilometers (267 miles); Slovenia, 209 kilometers (130 miles); total coastline including islands of Sicily and Sardinia, 7,458 kilometers (4,634 miles); France, 514 kilometers (320 miles). TERRITORIAL SEA LIMIT: 12 miles.

The main countries of origin were the Federal Republic of Yugoslavia, Iraq, and Turkey. Refugee status was granted in 29.6% of decisions on the applications made in 1998. Italy also hosts 5,816 people who arrived in 1999 from Macedonia under the UNHCR/IOM Humanitarian Evacuation Programme. In 1999, the net migration rate was 0.17 migrants per 1,000 population.

## 8 ETHNIC GROUPS

Italy has been the home of various peoples: Lombards and Goths in the north; Greeks, Saracens, and Spaniards in Sicily and the south; Latins in and around Rome; and Etruscans and others in central Italy. For centuries, however, Italy has enjoyed a high degree of ethnic homogeneity. The chief minority groups are the

German-speaking people in the Alto Adige (South Tyrol) region and the Slavs of the Trieste area.

## **9** LANGUAGES

Italian, the official language, is spoken by the vast majority of people. While each region has its own dialect, Tuscan, the dialect of Tuscany, is the standard dialect for Italian. French is spoken in parts of Piedmonte and in Valle d'Aosta, where it is the second official language; Slovene is spoken in the Trieste-Gorizia area. German is widely used in Bolzano Province, or South Tyrol (part of the Trentino-Alto Adige region), which was ceded by Austria in 1919; under agreements reached between Italy and Austria in 1946 and 1969, the latter oversees the treatment of these German-speakers, who continue to call for greater linguistic and cultural autonomy.

## **10** RELIGIONS

In 1998, the overwhelming majority (85%) of native-born Italian citizens professed the Roman Catholic faith. Roman Catholicism, affirmed as the state religion under the Lateran Treaty of 1929, lost that distinction under a concordat with the Vatican ratified in 1985. However, the Catholic Church continues to hold a privileged status with the state. Jehovah's Witnesses form the second-largest denomination among native-born Italian citizens, with about 400,000 adherents. However, if immigrants are counted, the second-largest religion is Islam, with an estimated one million followers. About 100,000 people are Scientologists, 60,000 are Buddhists, 30,000 are Waldensians (a Calvinist sect), 30,000 are Jewish, and 20,000 are Mormons. The Orthodox and Protestant Churches have small communities. Hinduism is also represented.

## **11** TRANSPORTATION

Italy's highway system, one of the world's best, in 2002 totaled an estimated 668,669 km (415,511 mi) of paved roads, of which 6,460 km (4,014 mi) were expressways. These expressways carry heavy traffic along such routes as Milan-Como-Varese, Venice-Padua, Naples-Salerno, and Milan-Bologna-Florence-Rome-Naples. A major highway runs through the Mont Blanc Tunnel, connecting France and Italy. In 2002, there were an estimated 32 million passenger cars and 2.9 million commercial vehicles.

In 2002, Italy maintained a total railway trackage of 19,786 km (12,295 mi). The government owns and operates 80% of the rail system, the Italian State Railway (Ferrovie dello Stato-FS), including the principal lines. Connections with French railways are made at Ventimiglia, Tenda, and Mont Cenis; with the Swiss, through the Simplon and St. Gotthard passes; with the Austrian, at the Brenner Pass and Tarvisio; and with the Slovenian, through Gorizia.

The navigable inland waterway system, totaling about 2,400 km (1,490 mi), is mainly in the north and consists of the Po River, the Italian lakes, and the network of Venetian and Po River Valley canals. There is regular train-ferry and automobile-ferry service between Messina and other Sicilian ports. Freight and passengers are carried by ship from Palermo to Naples. Sardinia and the smaller islands are served by regular shipping. Regular passenger service is provided by hydrofoil between Calabria and Sicily, and between Naples, Ischia, and Capri.

As of 2002, Italy had 467 merchant vessels totaling 8,499,248 GRT (10,383,988 DWT). Genoa and Savona on the northwest coast and Venice on the Adriatic handle the major share of traffic to and from the northern industrial centers. Naples, second only to Genoa, is the principal port for central and southern Italy, while Livorno is the natural outlet for Florence, Bologna, and Perugia. Messina, Palermo, and Catania are the chief Sicilian ports, and Cagliari handles most Sardinian exports.

In 2001 there were 135 airports, 96 with paved runways. Italy's one national airline, Alitalia, which is almost entirely

government-owned, maintains an extensive domestic and international network of air routes. Rome's Fiumicino and Milan's Malpensa and Linate are among the most important airports, being served by nearly every major international air carrier. In 2001, Italian civil aviation performed a total of 1,521 million freight ton-km (945 million freight ton-mi), and carried 31,031,000 passengers on scheduled domestic and international airline flights.

## **12** HISTORY

The Italian patrimony, based on Roman antecedents—with a tradition that extends over 2,500 years—is the oldest in Europe, next to Greece's. The Ligurians, Sabines, and Umbrians were among the earliest-known inhabitants of Italy, but in the 9th century BC they were largely displaced in central Italy by the Etruscans, a seafaring people, probably from Asia Minor. Shortly thereafter there followed conquests in Sicily and southern Italy by the Phoenicians and the Greeks. By 650 BC, Italy was divided into ethnic areas: the Umbrians in the north, the Ligurians in the northwest, the Latins and Etruscans in the central regions, and the Greeks and Phoenicians in the south and Sicily. The Etruscan civilization, a great maritime, commercial, and artistic culture, reached its peak about the 7th century, but by 509 BC, when the Romans overthrew their Etruscan monarchs, its control in Italy was on the wane. By 350 BC, after a series of wars with both Greeks and Etruscans, the Latins, with Rome as their capital, gained the ascendancy, and by 272 BC, they managed to unite the entire Italian peninsula.

This period of unification was followed by one of conquest in the Mediterranean, beginning with the First Punic War against Carthage (264–241 BC). In the course of the century-long struggle against Carthage, the Romans conquered Sicily, Sardinia, and Corsica. Finally, in 146 BC, at the conclusion of the Third Punic War, with Carthage completely destroyed and its inhabitants enslaved, Rome became the dominant power in the Mediterranean. From its inception, Rome was a republican city-state, but four famous civil conflicts destroyed the republic: Sulla against Marius and his son (88–82 BC), Julius Caesar against Pompey (49–45 BC), Brutus and Cassius against Mark Antony and Octavian (43 BC), and Mark Antony against Octavian. Octavian, the final victor (31 BC), was accorded the title of Augustus ("exalted") by the Senate and thereby became the first Roman emperor. Under imperial rule, Rome undertook a series of conquests that brought Roman law, Roman administration, and Pax Romana ("Roman peace") to an area extending from the Atlantic to the Rhine, to the British Isles, to the Iberian Peninsula and large parts of North Africa, and to the Middle East as far as the Euphrates.

From the 6th to the 13th century, Italy suffered a variety of invaders and rulers: the Lombards in the 6th century, the Franks in the 8th century, the Saracens in the 9th, and the Germans in the 10th. The German emperors (of the Holy Roman Empire), the popes, and the rising Italian city-states vied for power from the 10th to the 14th century, and Italy was divided into several, often hostile, territories: in the south, the Kingdom of Naples, under Norman and Angevin rule; in the central area, the Papal States; and in the north, a welter of large and small city-states, such as Venice, Milan, Florence, and Bologna. After two centuries of successful rule, in the 3rd century AD, Rome was threatened by internal discord and menaced by Germanic and Asian invaders, commonly called barbarians (from the Latin word *barbari*, "foreigners"). Emperor Diocletian's administrative division of the empire into two parts in 285 provided only temporary relief; it became permanent in 395. In 313, Emperor Constantine accepted Christianity, and churches thereafter rose throughout the empire. However, he also moved his capital from Rome to Constantinople, greatly reducing the importance of the former. From the 4th to the 5th century, the Western Roman Empire

disintegrated under the blows of barbarian invasions, finally falling in 476, and the unity of Italy came to an end. For a time, Italy was protected by the Byzantine (Eastern Roman) Empire, but a continuing conflict between the bishop of Rome, or pope, and the Byzantine emperor culminated in a schism during the first half of the 8th century.

By the 13th century, the city-states had emerged as centers of commerce and of the arts and sciences; in particular, Venice had become a major maritime power, and the city-states as a group acted as a conduit for goods and learning from the Byzantine and Islamic empires. In this capacity, they provided great impetus to the developing Renaissance, which between the 13th and 16th centuries led to an unparalleled flourishing of the arts, literature, music, and science. However, the emergence of Portugal and Spain as great seagoing nations at the end of the 15th century undercut Italian prosperity. After the Italian Wars (1494–1559), in which France tried unsuccessfully to extend its influence in Italy, Spain emerged as the dominant force in the region. Venice, Milan, and other city-states retained at least some of their former greatness during this period, as did Savoy-Piedmont, protected by the Alps and well defended by its vigorous rulers.

The French Revolution was brought to the Italian peninsula by Napoleon, and the concepts of nationalism and liberalism infiltrated everywhere. Short-lived republics and even a Kingdom of Italy (under Napoleon's stepson Eugene) were formed. But reaction set in with the Congress of Vienna (1815), and many of the old rulers and systems were restored under Austrian domination. The concept of nationalism continued strong, however, and sporadic outbreaks led by such inveterate reformers as Giuseppe Mazzini occurred in several parts of the peninsula down to 1848–49. This *Risorgimento* (national rebirth) movement was brought to a successful conclusion under the able guidance of Count Camillo Cavour, prime minister of Piedmont. Cavour managed to unite most of Italy under the headship of Victor Emmanuel II of the house of Savoy, and on 17 March 1861, the Kingdom of Italy was proclaimed with Victor Emmanuel II as king. Giuseppe Garibaldi, the popular republican hero of Italy, contributed much to this achievement and to the subsequent incorporation of the Papal States under the Italian monarch. Italian troops occupied Rome in 1870, and in July 1871, it formally became the capital of the kingdom. Pope Pius IX, a longtime rival of Italian kings, considered himself a "prisoner" of the Vatican and refused to cooperate with the royal administration.

### The Twentieth Century

The new monarchy aspired to great-power status but was severely handicapped by domestic social and economic conditions, particularly in the south. Political reforms introduced by Premier Giovanni Giolitti in the first decade of the 20th century improved Italy's status among Western powers but failed to overcome such basic problems as poverty and illiteracy. During World War I, Italy, originally an ally of the Central Powers, declared itself neutral in 1914 and a year later joined the British and French in exchange for advantages offered by the secret Treaty of London. At the Versailles Peace Conference, Italy, which had suffered heavy losses on the Alpine front and felt slighted by its Western allies, failed to obtain all of the territories that it claimed.

This disappointment, coupled with the severe economic depression of the postwar period, created great social unrest and led eventually to the rise of Benito Mussolini, who, after leading his Fascist followers in a mass march on Rome, became premier in 1922. He established a Fascist dictatorship, a corporate state, which scored early successes in social welfare, employment, and transportation; in 1929, he negotiated the Lateran Treaties, under which the Holy See became sovereign within the newly constituted Vatican City State and Roman Catholicism was

reaffirmed as Italy's official religion (the latter provision was abolished in 1984). The military conquest of Ethiopia (1935–36) added to Italy's colonial strength and exposed the inability of the League of Nations to punish aggression or keep the peace.

Italy joined Germany in World War II, but defeats in Greece and North Africa and the Allied invasion of Sicily toppled Mussolini's regime on 25 July 1943. Soon Italy was divided into two warring zones, one controlled by the Allies in the south and the other (including Rome) held by the Germans, who had quickly moved in, rescued Mussolini, and established him as head of the puppet "Italian Social Republic." When German power collapsed, Mussolini was captured and executed by Italian partisans.

The conclusion of the war left Italy poverty-stricken and politically disunited. In 1946, Italy became a republic by plebiscite; in the following year, a new constitution was drafted, which went into effect in 1948. Under the peace treaty of 10 February 1947, Italy was required to pay \$360 million in reparations to the USSR, Yugoslavia, Greece, Ethiopia, and Albania. By this time, the Italian economy, initially disorganized by Mussolini's dream of national self-sufficiency and later physically devastated by the war, was in a state of near collapse. By the early 1950s, however, with foreign assistance (including \$1,516.7 million from the United States under the Marshall Plan), Italy managed to restore its economy to the prewar level. From this point, the Italian economy experienced unprecedented development through the 1960s and 1970s.

Politically, postwar Italy has been marked by a pattern of accelerating instability, with 48 different coalition governments through 15 March 1988. In May 1981, the coalition of Prime Minister Arnaldo Forlani was brought down after it was learned that many government officials, including three cabinet ministers, were members of a secret Masonic lodge, Propaganda Due (P-2), that had reportedly been involved in illegal right-wing activities. Left-wing terrorism, notably by the Red Brigades (Brigate Rosse), also plagued Italy in the 1970s and early 1980s. In January 1983, 23 Red Brigade members were sentenced to life imprisonment in connection with the kidnapping and murder of Prime Minister Aldo Moro in 1978; another 36 members received sentences of varying lengths for other crimes, including 11 murders and 11 attempted murders, committed between 1976 and 1980.

By 1986, however, internal security had improved. A major effort against organized crime was under way in the mid-1980s; over 1,000 suspects were tried and the majority convicted in trials that took place in Naples beginning in February 1985 and in Sicily beginning in February 1986.

Revelations of corruption and scandals involving senior politicians, members of the government administration, and business leaders rocked Italy in the early 1990s. Hundreds of politicians, party leaders, and industrialists were either under arrest or under investigation. The scandals discredited the major parties, which had governed Italy since 1948 and gave impetus to new reformist groups.

In August 1993, Italy made significant changes in its electoral system. Three-fourths of the seats in both the Chamber and the Senate would be filled by simple majority voting. The remainder would be allocated by proportional representation to those parties securing at least 4% of the vote. The first elections under the new system in March 1994 resulted in a simplification of electoral alliances and brought a center-right government to power. Silvio Berlusconi, founder of the "Go Italy" (Forza Italia) movement, emerged as prime minister. Berlusconi, a successful Italian businessman, was a newcomer to Italian politics. He was supported by the Alliance for Freedom coalition, which had received over 42% of the vote and 366 seats.

Berlusconi's government, however, became victim to charges of government corruption and on 22 December 1994 he was forced to resign in the face of a revolt by the Northern League, one of

the parties in his ruling coalition. Three weeks after Berlusconi's resignation, Trade Minister Lamberto Dini was named prime minister. Dini was experienced in international finance but had no political affiliation. He formed a government of technocrats and set about to enact fiscal and electoral reforms. Pragmatism and a lack of viable alternatives kept him in power until supporters of his main political rival, Silvio Berlusconi, presented a motion that he step down. When Dini learned that two splinter groups in his center-left coalition (the Greens and the Communist Refounding party) would not vote in his favor, he resigned on 11 January 1996 rather than face a no-confidence vote.

The elections, held on 21 April 1996, saw a center-left coalition, dominated by the former communists (DS), take control of the country for the first time in 50 years. Romano Prodi, an economics professor with little political experience, was chosen to serve as prime minister on 16 May. His coalition government collapsed after it failed to win a vote of no-confidence over the budget. President Oscar Luigi Scalfaro asked Massimo D'Alema, the leader of the DS and of the largest party in the Olive Tree to form a new administration. His cabinet retained the same members from the left and center as before. This government also continued to pursue fiscal consolidation to join European economic and monetary union in 1999. Prodi left for Brussels to take up the presidency of the European Commission in May 1999. D'Alema reshuffled his cabinet in 1999 but it finally fell in April 2000. The immediate cause was the dismal performance in regional elections. The center-left won 7 out of 15 regions while the right, under the leadership of Silvio Berlusconi, took 8 regions.

The coalition of twelve discordant political blocs backed the Treasury Minister, Giuliano Amato, to become the new prime minister (appointed by President Carlo Azeglio Ciampi, in office since May 1999). Prior to the fall of the D'Alema administration, the government had scheduled an important referendum to scrap the last remaining vestiges of direct proportional representation in the electoral system. Only one-third of the electorate bothered to vote on 21 May 2000, not enough to validate the referendum outcome.

Berlusconi's House of Liberties coalition, led by Go Italy, secured 368 seats in the Chamber of Deputies in the May 2001 parliamentary elections, to the Olive Tree coalition's 242 seats. (The House of Liberties coalition also won a majority in the Senate.) After becoming Italy's 59th post-war prime minister, Berlusconi faced long-standing charges of criminal wrongdoing, including bribery; he became the first sitting Italian prime minister to appear at his own trial.

Italy offered the use of its airspace and military bases to the US-led coalition in its war with Iraq, which began on 19 March 2003, although Italy did not send troops to the region and did not allow coalition forces to launch a direct attack on Iraq from Italy. Some 75% of Italians opposed the use of military force against the Saddam Hussein regime, but Berlusconi adopted a position of solidarity with the US-led coalition.

### 13 GOVERNMENT

In a plebiscite on 2 June 1946, the Italian people voted (12,700,000 to 10,700,000) to end the constitutional monarchy, which had existed since 1861, and establish a republic. At the same time, a constituent assembly was elected, which proceeded to draft and approve a new constitution; it came into force on 2 January 1948. Under this constitution, as amended, the head of the Italian Republic is the president, who is elected for a seven-year term by an electoral college consisting of both houses of parliament and 58 regional representatives. Elections for a new president must be held 30 days before the end of the presidential term. Presidential powers and duties include nomination of the prime minister, who, in turn, chooses a Council of Ministers (cabinet) with the approval of the president; the power to dissolve

parliament, except during the last six months of the presidential term of office; representation of the state on important occasions; ratification of treaties after parliamentary authorization; and the power to grant pardons and commute penalties. Although the constitution limits presidential powers, a strong president can play an important political as well as ceremonial role.

Legislative power is vested in the bicameral parliament, consisting of the Chamber of Deputies and the Senate. Members of the 630-seat lower house, the Chamber of Deputies, must be at least 25 years old and are elected for five-year terms. The 315 elective members of the Senate must be at least 40 years old and are elected for five-year terms. Former presidents of the republic are automatically life senators, and the president may also appoint as life senators persons who have performed meritorious service. Citizens must be at least 25 years of age to vote for senators; otherwise, those over the age of 18 may vote in all other elections.

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The constitution gives the people the right to hold referenda to abrogate laws passed by the parliament; a referendum requires at least 500,000 signatures. Four referenda had been held by 1987 (against the legalization of divorce in 1974, against increased police powers and state financing of the political parties in 1978, and against government cuts in wage indexation in 1985), and in all of them, the voters approved the parliamentary decisions.

On 21 May 2000, Italian voters were asked to decide on electoral reform by increasing the number of lower house seats filled on the basis of a non-proportional system to 100%, effectively scrapping the last remaining element of pure proportional representation. The referendum needed to secure a quorum of 50% of the electorate to gain validity. The final turnout of 32% was much lower than expected and was an alarming sign of voter fatigue and popular disaffection.

### 14 POLITICAL PARTIES

Italy has a complex system of political alignments in which the parties, their congresses, and their leaders often appear to wield more power than parliament or the other constitutional branches of government.

Basic party policy is decided at the party congresses—generally held every second year—which are attended by locally elected party leaders. At the same time, the national party leadership is selected.

The most important political party traditionally has been the Christian Democratic Party (Partito Democrazia Cristiana—DC), which stands about midway in the political spectrum. In the 1983 national elections, the DC commanded 32.9% of the vote and won 225 seats in the Chamber of Deputies, down from 38.3% and 262 seats in 1979; in 1987, however, its electoral strength increased again, to 34.3% and 234 seats. From 1948 until 1981, the prime minister of Italy was consistently drawn from the ranks of the DC, whose religious and anti-class base constitutes both its strength and its weakness. Its relationship with the Church gives it added strength but also opens it to criticism by lay parties. Since it attracts its membership from all classes, the DC is also the most prone to internal dissension. As a result of scandals and corruption charges, the DC has lost considerable support, especially to regional movements in the north. The DC contested the 1994 election under the Pact for Italy Coalition.

To the right and the left of the DC stand a wide range of parties. The most important of these is the Italian Communist Party (Partito Comunista Italiano—PCI), the largest Communist party in Western Europe. The PCI had been second in power and influence only to the DC, but in the 1980s, its electoral base declined, despite the fact that it effectively severed its ties with both the former USSR and Marxism-Leninism. In 1987, the PCI won only 24.6% and 177 seats, down from 29.9% and 198 seats in 1983 and 34.4% and 228 seats in 1976. It is now two parties: Communist Refounding and the Democratic Party, or the left.

Two center-left parties, the Italian Socialist Party (Partito Socialista Italiano—PSI) and the Italian Social Democratic Party (Partito Socialista Democratico Italiano—PSDI) combined in 1966 to form the United Socialist Party, but following a split in 1969, both reemerged as separate parties. In 1987, the PSI won 94 seats in the Chamber of Deputies, a gain of 21 over 1983, and the PSDI took 17 seats, a decline of 6 from 1983.

The Italian Republican Party (Partito Repubblicano Italiano—PRI), which was liberal on civil and human rights but conservative on economic issues, scored impressive gains in 1983, raising its number of deputies from 16 to 29, but in 1987, it gained only 21 seats; during 1981–82, Giovanni Spadolini, PRI party secretary, served as prime minister, Italy's first non-DC head of government since 1948. The Italian Liberal Party (Partito Liberale Italiano—PLI) also advanced in 1983 by winning 16 seats, for a gain of 7, but gained only 11 seats in 1987. The Radical Party (Partito Radicale) was active on social issues in Italy, having sponsored the 1974 referendum on divorce; in 1983, it won 11 seats in the Chamber, and in 1987, 13 seats. Other parties have included, on the extreme right, the Italian Social Movement (Movimento Sociale Italiano—MSI), which elected 42 deputies in 1983 and 35 in 1987, and, on the far left, the Proletarian Democracy (Democrazia Proletaria—DP), which elected seven deputies in 1983 and eight in 1987. The Greens, an environmentalist group that entered the elections for the first time in 1987, won 13 seats.

Between 1946 and 1962, the PSI acted in unity with the PCI, forming an opposition bloc of about 40% in the Chamber. In early 1962, a new type of government—a center-left coalition—was formed, uniting the DC with all the leftist parties except the PCI. The crux of this government was a working alliance between the DC and the PSI, which previously had been closely bound to the PCI. The objectives of the alliance were to isolate the PCI by drawing the PSI closer to the center parties and to undercut the Communists' popularity by legislating needed social and economic reforms. Center-left coalitions continued to form the governments after 1962, but these alliances were notoriously unstable. Furthermore, the alliance of the moderate left parties with the weakened DC actually strengthened the Communists as an opposition party in the 1970s.

In the late 1970s, a "historic compromise" was reached between the DC and the Communists, who were allowed to participate in the policy-making (1977–79) but had no direct role in the government. The strong gains made by the smaller political parties in 1983 led to the formation of a five-party coalition government (DC, PSI, PRI, PSDI, and PLI) under PSI leader Bettino Craxi on 4 August 1983. This marked the first time that a Socialist held the premiership. His government, which lasted until June 1986, was the longest postwar government. In July 1987, Giovanni Gorla was confirmed by the Chamber of Deputies as the new DC prime minister; in November, however, his government collapsed when the PLI withdrew from the governing coalition. Gorla formed a new government, but it collapsed in February 1988.

The April 1996 election saw a resurgence of the left as the Olive Tree coalition, anchored by former communists calling themselves the Party of the Democratic Left (PDS), gained 284 seats in the 630-seat Chamber of Deputies and 157 seats in the

315-seat Senate. The Refounded Communists won 35 seats in the Chamber of Deputies, the separatist Northern League 59, the center-right Freedom Alliance 246, and others 6. The elections of April 1992 failed to resolve Italy's political and economic problems. The election of March 1994 under new voting rules resulted in the following distribution of seats in the Chamber (lower house): Alliance for Freedom, 42.9% (Forza Italia, Northern League, National Alliance—366 seats); Progressive Alliance, 32.2% (Democratic Party, or the left, Communist Refounding, Democratic Alliance, Greens, Reformers—213 seats); and Pact for Italy, 15.7% (Popular Party, others—46 seats).

In the May 2001 election, Berlusconi's right-leaning coalition, the House of Liberties, was comprised of his Forza Italia (Go Italy) party; the National Alliance, Northern League, Christian-Democratic Center Party; United Christian Democrats; and the New Italian Socialist Party. This coalition won 368 seats in the Chamber of Deputies, and 177 in the Senate. The Olive Tree coalition—composed of the Democrats of the Left, the Daisy Alliance (including the Italian Popular Party, Italian Renewal, Union of Democrats for Europe, and the Democrats) the Sunflower Alliance (including the Greens and the Italian Democratic Socialists), and the Italian Communist Party—came in second with 242 seats in the lower house (128 in the Senate). The Communist Refounding took 11 seats in the Chamber of Deputies, and the Olive-Southern Tyrols People's Party of German speakers secured 5 seats in the lower house.

## 15 LOCAL GOVERNMENT

Under the terms of the 1948 constitution, Italy is divided into 20 regions. Five of these regions (Sicily, Sardinia, Trentino-Alto Adige, Friuli-Venezia Giulia, and the Valle d'Aosta) have been granted semiautonomous status, although the powers of self-government delegated from Rome have not been sufficient to satisfy the militant separatists, especially in Alto Adige. Legislation passed in 1968 granted the remaining 15 regions an even more limited degree of autonomy. All the regions elect regional councils, which have so far been dominated by the Christian Democrats and the Communists, although various regional movements have been gaining ground. The councils, which are elected by universal franchise under a proportional system analogous to that of the parliament at Rome, are empowered to choose regional presidents and regional governing boards. A commissioner in each region represents the federal government.

The regions are subdivided into provinces, which are, in turn, subdivided into communes—townships, cities, and towns—that constitute the basic units of local administration. Communes are governed by councils elected by universal suffrage for a four-year term. The council elects a mayor and a board of aldermen to administer the commune.

## 16 JUDICIAL SYSTEM

Minor legal matters may be brought before conciliators, while civil cases and lesser criminal cases are tried before judges called *pretori*. There are 159 tribunals, each with jurisdiction over its own district; 90 assize courts, where cases are heard by juries; and 26 assize courts of appeal. The Court of Cassation in Rome acts as the last instance of appeal in all cases except those involving constitutional matters, which are brought before the special Constitutional Court (consisting of 15 judges). For many years, the number of civil and criminal cases has been increasing more rapidly than the judicial resources to deal with them.

The law assuring criminal defendants a fair and public trial is largely observed in practice. The 1989 amendments to the criminal procedure law both streamline the process and provide for a more adversarial system along the American model.

By law the judiciary is autonomous and independent of the executive branch. In practice, there has been a perception that magistrates were subject to political pressures and that political bias of individual magistrates could affect outcomes. Since the start of “clean hands” investigations of the judiciary in 1992 for kickbacks and corruption, magistrates have taken steps to distance themselves from political parties and other pressure groups.

## 17 ARMED FORCES

Since 1949 Italy, as a member of NATO, has maintained large and balanced modern forces. The total strength in 2002 was 216,800 active personnel with reserves numbering 65,200. Army personnel numbered 128,000 operating over 1,000 main battle tanks. Navy personnel totaled 38,000, including 1,500 marines. The air force had a total strength of 50,800 personnel with 261 combat aircraft. Italy provides support for 12 peacekeeping missions. Italy’s military budget for 2002 was \$20.2 billion or 1.6% of GDP.

## 18 INTERNATIONAL COOPERATION

Italy has been a member of the UN since 14 December 1955 and participates in the ECE and all UN nonregional specialized agencies. It is a member of the Council of Europe, the EU, NATO, and the OECD and is a signatory to the Law of the Sea and a member of the WTO. Italy also participates in the Asian Development Bank and enjoys permanent observer status at the OAS.

## 19 ECONOMY

As the Italian economy, the world’s sixth largest, has expanded since the 1950s, its structure has changed markedly. Agriculture, which in 1953 contributed 25% of the GNP and employed 35% of the labor force, contributed in 1968 only 11% of the GNP and employed only 22% of the active labor force—despite continued increases in the value of agricultural production. Agriculture’s contribution to the GDP further declined to 8.4% in 1974 and 5% in 2001. Conversely, the importance of industry has increased dramatically. Industrial output almost tripled between 1953 and 1968 and generally showed steady growth during the 1970s; in 2001, industry (including fuel, power, and construction) contributed about 30% to the GDP. Precision machinery and motor vehicles have led the surge in manufacturing, and Italy has generally been a leader in European industrial design and fashion in recent decades. Services in 2001 accounted for approximately 68% of the economy.

Despite this economic achievement, a number of basic problems remain. Natural resources are limited, landholdings often are poor and invariably too small, industrial enterprises are of minimal size and productivity, and industrial growth has not been translated into general prosperity. The rise in petroleum prices during the mid-1970s found Italy especially vulnerable, since the country is almost totally dependent on energy imports. In addition, because economic activity is centered predominately in the north, Italians living in the northern part of the country enjoy a substantially higher standard of living than those living in the south.

Partly because of increased energy costs, inflation increased from an annual rate of about 5% in the early 1970s to an annual average of 16.6% during 1975–81, well above the OECD average. Inflation was brought down to 14.6% in 1983 and to between 4 and 6% during most of the 1990s. In 1997 it was reduced to under 2%, its lowest level in 30 years. Inflation was expected to stay at around 2% by the end of 2004.

From 1981 through 1983, Italy endured a period of recession, with rising budget deficits, interest rates above 20%, virtually no real GDP growth, and an unemployment rate approaching 10%. Unemployment hovered around the 10 to 12% range for most of

the 1990s and at 9% into the 2000s. Between 1985 and 1995, GDP growth averaged 1.9% a year. It was expected to be quite low in 2003, at 0.7%, but to improve in 2004.

Italy’s large public debt, public sector deficit, low productivity growth, and burdensome and complex tax system, are generally blamed for the poor state of the economy. A rigid labor market and generous pension system are also seen as responsible for a sluggish economy. The Silvio Berlusconi administration by 2002 had abolished an inheritance tax, a move which was popular among affluent Italians. Tax cuts for low- and middle-income households were planned for 2003, and the corporate tax rate was reduced. Berlusconi also attempted to loosen labor laws to increase temporary work contracts and to ease hiring and firing practices. The government in 2002 was geared toward implementing spending cuts to spur consumer spending and corporate research and development. Pension reform, called a “financial time bomb” by economists, was proposed by the government and resulted in strikes in parts of Italy in mid-2003.

One of Italy’s strengths is the thriving state of its small firms, which are often family owned. Out of a total of 35,000 joint stock companies, 13,000 have fewer than ten employees. These small businesses are able to succeed in niche markets. Italians spend more than other Europeans on clothes and shoes, and are second only to Spaniards in for spending in bars, restaurants, and hotels. Because many Italians rent their living spaces, expenditure on housing is low.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Italy’s gross domestic product (GDP) was estimated at \$1.438 trillion. The per capita GDP was estimated at \$25,000. The annual growth rate of GDP was estimated at 0.4%. The average inflation rate in 2002 was 2.4%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 2% of GDP, industry 30%, and services 68%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$359 million or about \$6 per capita. Worker remittances in 2001 totaled \$321.9 million.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$12,761. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 1%. Approximately 23% of household consumption was spent on food, 12% on fuel, 3% on health care, and 17% on education. The richest 10% of the population accounted for approximately 21.8% of household consumption and the poorest 10% approximately 3.5%.

## 21 LABOR

The labor force numbered 23.6 million in 2001. Of those, 63% were in agriculture, 32% in industry, and 5% in agriculture. The estimated unemployment rate in 2002 was 9%.

The law provides the right to form and join unions, and many workers exercise this right. There are three major trade union confederations. The largest national federation is the General Confederation of Italian Workers (CGIL), followed by the Italian Confederation of Workers’ Labor Unions (CISL), formed in 1950, and the Italian Union of Labor (UIL). Approximately 40% of the workforce in 2002 were union members. The right to strike is constitutionally protected, and workers engage in collective bargaining. Employers may not discriminate against those engaged in union activity.



Collective labor contracts, which establish wages and salaries in every major field, generally provide for a 38-hour workweek (although workers may legally work up to 48 hours per week), 10 paid statutory holidays, and a paid annual leave varying from two to four weeks. All employees in Italy receive an extra month's pay at the end of the year; contracts may also call for additional compulsory bonuses, and basic wages and salaries are adjusted quarterly to compensate for increases in the cost of living. There is no legal minimum wage. With some limited exceptions, children under age 15 are prohibited by law from employment.

## 22 AGRICULTURE

Of Italy's total land area of 29.4 million ha (72.6 million acres), 10.9 million ha (26.9 million acres), or 37.1% of the land, were under annual or permanent crops in 1998. Small, individually owned farms predominate, with the majority three ha (7.4 acres) or less. In 2001, about 5% (1.4 million persons) of the economically active population was in the agricultural sector.

Despite government efforts, the agricultural sector has shown little growth in recent decades. The imports of agricultural products increased from \$19.6 billion in 1987 to \$20.9 billion in 2001. Italy has to import about half of its meat. The land is well suited for raising fruits and vegetables, both early and late crops, and these are the principal agricultural exports. Although yields per hectare in sugar beets, tomatoes, and other vegetable crops have increased significantly, both plantings and production of wheat declined between 1974 and 1981. Thus, although Italy remains a major cereal-producing country, wheat must be imported. The government controls the supply of domestic wheat and the import of foreign wheat.

Production of major agricultural products in 1999 (in thousands of tons) included sugar beets, 14,100; wheat, 7,743; corn, 9,996; tomatoes, 7,091; oranges, 1,994; potatoes, 2,077; apples, 2,416; barley, 1,329; and rice, 1,362. In 1999, Italy produced 9,732,000 tons of wine grapes, 3,208,000 tons of olives, and 649,000 tons of olive oil. In 1998, Italy had 1,475,000 tractors (third in the world) and 50,450 harvester-threshers.

## 23 ANIMAL HUSBANDRY

Some 4,350,000 ha (10,749,000 acres) are meadows and pastures. Both a growing need for fodder and insufficient domestic production compel Italy to import large amounts of corn. In 2001, the country had 7,211,000 head of cattle, 8,329,000 hogs, 11,089,000 sheep, 1,375,000 goats, 285,000 horses, and an estimated 100 million chickens. That year, total meat production from hogs, cattle, sheep, and goats was 4,141,000 tons. Of the meat produced, 36% was pork, 27% was beef, 27% was poultry, 1% was mutton, and 9% was from other sources. Meat production falls short of domestic requirements, and about half of all meat consumed must be imported. Although Italy produced 11.3 million tons of cow milk in 2001, dairy farming remains comparatively undeveloped. Both dairy and beef cattle are raised mainly in the north.

## 24 FISHING

Italy's geography provides abundant access to marine fishing. Peninsular Italy and the islands of Sicily and Sardinia together have over 8,000 km (4,900 mi) of coastline and over 800 landing ports equipped for fishing boats. There are also 1,500 sq km (580 sq mi) of lagoons and 1,700 sq km (650 sq mi) of marine ponds. Although coastal and deep-sea fishing in the Mediterranean engage over 50,000 fishermen, the fishing industry is unable to meet domestic needs. As of 2000 there were 18,390 Italian fishing vessels with a fishing capacity (gross tonnage) of 207,550 tons. Since the extension of the 200-mile limit zones and the consequent drop in the total catch, Italy's fishing industry has

declined because their deep-sea vessels were not suited to Mediterranean fishing. The total catch in 2000 was 439,285 tons, 98% from marine fishing. In 2000, Italy produced 80,000 tons of canned tuna and 11,000 tons of canned anchovies. The majority of the Italian fish harvest (up to 50%) is not officially recorded but sold directly to restaurants, wholesalers, and fishmongers. Anchovy, rainbow trout, sardine, and European hake are the main finfish species caught. Sponges and coral are also commercially important. The main commercial fishing ports are Mazara del Vallo, Palermo, San Benedetto del Tronto, Chioggia-Venezia, and Genoa.

There are over a thousand intensive production fish farms that belong to the Italian Fish Breeding Association, with 70% located in northern Italy. Total Italian aquaculture production in 2000 was 227,600 tons, valued at \$441 million.

## 25 FORESTRY

The major portion of the 10 million ha (24.7 million acres) of forest is in the Alpine areas of northern Italy; few extensive forests grow in central or southern Italy or on the islands. Italy has more softwood than hardwood growth and extensive coppice (thicket and small shrub) stands. The overall forest structure consists of 58% coppice stands, 23% softwoods, and 19% hardwood high stands. The only species that are commercially important are chestnut, beech, oak, and poplar. Chestnut and beech stands account for 30% of the hardwood forest and for over 40% of Italian wood production; oak comprises 6% of wood production. Poplar is the only species grown using managed forestry practices. Poplar plantations account for only 1% of the total forest area but for 50% of domestic wood output. Forest resources are stable and meet about 19% of annual demand. Italian wood output in 2001 consisted of 9 million cu m (318 million cu ft). About 57% of the timber cut was used for fuel wood. Approximately 90% of Italian forest product exports consist of wooden furniture, semi-finished wood products, and other finished wood products. The diversity in species composition, ownership patterns, topographic constraints, and conflicting resource management strategies have all contributed to limiting the productivity of Italian forest resources. Italy is a major importer of hardwood and softwood lumber, since its rugged terrain and disjointed forestland restrict domestic production. In 2001, the Italian wood and wood product sectors employed 413,872 workers in 87,546 companies with a total turnover of about \$35 billion, with the furniture sector accounting for \$20.8 billion. Some 80% of the raw materials used for manufacturing furnished wooden products are imported. Imports of forest products in 2001 were valued at \$4.68 billion, while exports totaled \$11.3 billion.

## 26 MINING

Although Italy was relatively poor in mineral resources, it was, nevertheless, the largest producer of feldspar, and pumice and related materials, the eighth-leading producer of crude steel, the tenth-leading producer of cement (second-largest in the EU), and a leading producer of dimension stone and marble, and continued to supply a significant portion of its own need for some minerals. Industrial mineral production, including construction materials, was the most important sector of the economy. Italy has been a significant processor of imported raw materials, and a significant consumer and exporter of mineral and metal semimanufactured and finished products. The third- and fourth-ranking industries in 2002 were, respectively, the production of iron and steel, and chemicals manufacture. Chemicals and minerals and nonferrous metals were leading export commodities. Mining output has increased 12% from 1990 to 2000.

Production totals for the leading minerals in 2000 were: feldspar, 2.5 million tons; barite, 30,000 tons, down from 80,463

in 1996; fluorspar (acid-grade and metallurgical-grade), 65,000 tons, down from 125,800 in 1997; hydraulic cement, 34 million tons; pumice and pumiceous lapilli, 600,000 tons (from Lipari Island, off the northern coast of Sicily); and pozzolan, 4 million tons (from Lipari). Alumina production (calcined basis) has risen sharply, from 699,635 tons in 1987 to 881,000 in 1996, to 950,000 in 2000. In addition, Italy produced antimony oxides, gold (from Sardinia), mine lead, mine manganese, bromine, crude clays (including white bentonite, or montmorillonite, refractory, fuller's earth, kaolin, and kaolinitic earth), diatomite, gypsum, lime, nitrogen, perlite, mineral pigments, salt (marine, rock, and brine), sand and gravel (including volcanic sand and silica sand), soda ash, sodium sulfate, stone (alabaster, dolomite, granite, limestone, marble, marl, quartz, quartzite, sandstone, serpentine, and slate), sulfur, and white talc and related materials. No zinc was mined in 1999 or 2000, and potash production remained suspended in 2000 because of a severe drought, causing restricted availability of groundwater, and because of environmental and ecological concerns, causing an inability to remove waste material and mine water.

Marble and travertine quarrying from the famous mines in the Massa and Carrara areas was still significant. Marble was quarried at hundreds of locations from the Alps to Sicily. The most important white-marble-producing area was in the Apuan Alps, near Carrara, and accounted for one-third of the country's 100,000 tons of white marble. Important colored-marble-producing areas included the Lazio region, Lombardy, the Po Valley, Puglia, Sicily, Venice, and Verona-Vincenza. Reserves of several types were considered to be unlimited; half of the country's output was in block form, and half was exported.

## 27 ENERGY AND POWER

Relying on foreign sources for over 90% of its energy needs, Italy is one of Europe's largest importers of oil. The country's heavy reliance on imports from sources such as Libya and Algeria has made energy security and diversification a priority. From 1970 to 1991, Italy's per capita consumption of energy rose by 70%. Petroleum production rose dramatically from 14,000 tons in 1937 to 1,506,760 tons in 1968, and to about 4,298,000 tons in 1994. In 2000 oil production stood at 145,000 barrels per day. Production falls far short of domestic needs; crude oil consumption in the same year totaled 1.9 million barrels per day. Under an energy plan adopted in October 1981, the government has sought to reduce oil's share of the nation's primary energy requirement from 67% in 1980 to 50% by 1990. This goal was reached (and surpassed) in 2000, when oil accounted for less than 50% of Italy's energy consumption for the first time in more than two decades.

Oil production was expected to rise with the development of oil reserves at Val d'Agri in the southern Apennines. Production from the oil fields began in 2000, but full capacity couldn't be reached until the completion of a pipeline to transport the oil to the refinery at Taranto, in 2001. The field was expected to be producing 100,000 barrels per day by 2004. Development of the neighboring Tempa Rossa field was slated to add another 44,000 barrels per day in 2003. Oil has been partly replaced by natural gas, whose consumption is expected to continue rising in the future. Natural gas production, which increased from 15 million cu m in 1937 to 15,273 million cu m in 1974, stood at 17,500 million cu m in 1999. Produced primarily in the Po River Valley, the gas is piped to the large cities of the north. The National Hydrocarbon Agency (Ente Nazionale Idrocarburi—ENI), a state agency, controls the production and distribution of natural gas and petroleum. Privatization of ENI took place between 1995 and 1998. As of 2002, the government's stake in the company was down to 35%, and ENI was the sixth-largest publicly traded oil company in the world.

The electric power industry, nationalized in 1962, underwent a restructuring when the government sold off 32% of Enel, the major power company, in November 1999 in Europe's largest initial public offering (IPO). In addition, three separate generating companies were formed for sale in the future. Italy's total installed electrical capacity was 68.5 million kW in 2001. By the late 1990s, hydroelectric power represented about a quarter of the country's capacity, a decline from the early 1960s, when it accounted for 60% of installed capacity. National electrical output in 2000 was 256 billion kWh. Conventional thermal plants produced 80%; hydroelectric, 17%; and other sources (non-nuclear), about 3%. Consumption of electricity in 2000 was 283.7 billion kWh. As of 1993, Italy's National Energy Plan called for an investment into the renewable energy sector (especially biomass, solar, and wind energy) of 4.5 trillion lira until the end of the decade.

## 28 INDUSTRY

Characterized both by a few large industrial concerns controlling the greater part of industrial output and by thousands of small shops engaged in artisan-type production, Italian industry expanded rapidly in the postwar period. Industrial production almost tripled between 1955 and 1968 and has generally showed continued growth, although the global recession that began in 2001 slowed industrial production and the economy as a whole. The lack of domestic raw materials and fuels represents a serious drag on industrial expansion. Industry accounted for 30% of GDP in 2001, and employed 32% of the labor force.

Three state-holding companies have played a large role in industry: ENI (National Hydrocarbon Agency), IRI (Industrial Reconstruction Institute), and EFIM (Agency for Participation and Financing of Manufacturing Industry). IRI was the 16th-largest industrial company in the world in 1993, with sales of \$50.5 billion; it had shareholdings in over 100 companies (including banks, electronics, engineering, and shipbuilding) and 333,600 employees in 1992. EFIM controls armaments and metallurgy industries. Debt-ridden EFIM was in the process of being dissolved in 1993. IRI became dismantled through sell-offs, and as of 2001, there were offerings of stakes in ENI. Major private companies are the Fiat automobile company; the Olivetti company (office computers and telecommunications); the Montedison chemical firm; and the Pirelli rubber company. The bulk of heavy industry is concentrated in the northwest, in the Milan-Turin-Genoa industrial triangle. The government has made concerted efforts to attract industry to the underdeveloped southeast.

With the drive toward greater European integration in full gear, Italy, along with its fellow EU member-states, is liberalizing its economic and commercial legislation. These promise a marked change in the Italian business scene as mergers and foreign investment increase. In early 1999, Olivetti mounted a successful hostile takeover for Telecom Italia.

Italy has become known for niche products, including fashion eye-wear, specialized machine tools, packaging, stylish furniture, and other products featuring high design. Traditional industries are iron and steel, machinery, chemicals, food processing (including olive oil, wine, and cheese), textiles, clothing, footwear, motor vehicles, and ceramics. Italy produced 1,579,656 automobiles in 2001, a 9% drop from 2000. It also manufactured 42,618 heavy trucks in 2000. The construction industry stands to gain in importance in the early 2000s, as Italy's less-developed regions are slated for infrastructure development.

## 29 SCIENCE AND TECHNOLOGY

The still-standing aqueducts, bathhouses, and other public works of both ancient republic and empire testify to the engineering and architectural skills of the Romans. The rebirth of science during the Renaissance brought the daring speculations of Leonardo da Vinci (including discoveries in anatomy, meteorology, geology, and hydrology, as well as a series of fascinating though ultimately impractical designs for a “flying machine”), advances in physics and astronomy by Galileo Galilei, and the development of the barometer by Evangelista Torricelli. To later Italian scientists and inventors the world owes the electric battery (1800), the electroplating process (1805), and the radiotelegraph (1895).

In 1987–97, Italy had 1,318 scientists and engineers and 798 technicians per million people engaged in research and development. Expenditures on research and development during that period totaled 2.2% of GDP. The National Research Council (Consiglio Nazionale delle Ricerche—CNR), founded in 1923, is the country's principal research organization. CNR institutes and associated private and university research centers conduct scientific work in mathematics, physics, chemistry, geology, technology, engineering, medicine, biology, and agriculture. Especially noteworthy are the National Institute of Nuclear Physics, in Rome, and the Enrico Fermi Center for Nuclear Studies, in Milan.

Italy has 47 universities offering courses in basic and applied sciences. The Istituto e Museo di Storia della Scienza di Firenze, founded in 1930, is located in Florence. In 1987–97, science and engineering students accounted for 30% of university enrollment.

## 30 DOMESTIC TRADE

Milan is the principal commercial center, followed by Turin, Genoa, Naples, and Rome. Genoa, the chief port of entry for Milan and Turin, handles about one-third of Italy's trade; Naples is the principal entrepôt for central and southern Italy. Adriatic as well as Middle Eastern trade is carried through Ancona, Bari, and Brindisi. Although small retail units predominate, department stores and supermarkets are playing an increasingly important role. In 2000, Italy ranked second in Europe in franchise business operations with about 562 companies and over 31,400 franchises.

Advertising in all forms is well developed, and the usual mass media (billboards, neon signs, newspapers and magazines, radio, cinema, and television) are used extensively. Market research is handled by over 100 firms.

Usual business hours in northern Italy are from 8 AM until noon and from 3 to 6 or 7 PM. In central and southern Italy, customary hours are 9 AM to 1 PM and 4 to 8 PM. In general, banking hours are 8:30 AM to 1:30 PM and 3 PM to 4 PM, Monday through Friday. Retail establishments are generally closed on Sundays.

## 31 FOREIGN TRADE

Industrial products, textiles and apparel, and foodstuffs are Italy's most important exports. Fuels, meat, grain products, and various raw materials are among the major imports. Trade deficits were substantial between the end of World War II and 1955, but between 1956 and 1968 the deficit gradually declined, and Italy's trade balance continued in relative equilibrium through 1972. Then, as prices of crude oil and other raw-material imports rose, Italy again began registering growing trade deficits. In 1993, however, a large surplus was recorded because of an export boom that followed the devaluation of the lira in September 1992, and Italy has been in a situation of surplus ever since.

The bulk of manufactured imports come from EU countries and the US, which are also the leading customers for Italian exports. The big commodity exports from Italy include industrial and automobile machinery and parts (38.4%), furniture (3.6%), and shoes (2.6%). The top ten exports are as follows:

	% OF COUNTRY TOTAL
Furniture	3.6
Automobiles	3.1
Motor vehicle parts and accessories	3.0
Other machinery for special industry	3.0
Footwear	2.6
Non-electric machinery parts	2.4
Gold, silverware and jewelry	2.3
Household type equipment	2.1
Heating and cooling equipment	1.7
Power-generating machinery	2.2

In 2000 Italy's imports were distributed among the following categories:

Consumer goods	12.5%
Food	7.4%
Fuels	9.8%
Industrial supplies	31.4%
Machinery	20.1%
Transportation	14.9%
Other	3.9%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	35,645	41,198	-5,553
France	29,607	26,377	3,230
United States	24,555	12,435	12,120
United Kingdom	16,260	12,821	3,439
Spain	14,737	9,719	5,018
Switzerland	7,908	7,064	844
Belgium	6,395	9,476	-3,081
Netherlands	6,271	13,342	-7,071
China (inc. Hong Kong)	5,168	6,465	-1,297
Japan	3,976	5,915	-1,939

## 32 BALANCE OF PAYMENTS

Italy did not have serious balance of payments problems since the mid-1970s. Exports soared since 1992, turning Italy's balance of payments positive. The growth in exports has been extremely strong in the northeast, where small and medium-sized companies produce high quality and low cost products—ranging from industrial machinery to ski boots—for French, German, Japanese, and Indian customers.

Italy had current account surpluses from 1993 to 1999, but in 2000 the country registered a \$5.6 billion deficit, after an \$8.2 billion surplus in 1999.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Italy's exports was \$259.2 billion while imports totaled \$238.2 billion resulting in a trade surplus of \$21 billion.

The International Monetary Fund (IMF) reports that in 2001 Italy had exports of goods totaling \$242.4 billion and imports totaling \$226.6 billion. The services credit totaled \$57.5 billion and debit \$57.4 billion. The following table summarizes Italy's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	-163
Balance on goods	15,862
Balance on services	203
Balance on income	-10,280
Current transfers	-5,949
<b>Capital Account</b>	846
<b>Financial Account</b>	-3,211
Direct investment abroad	-21,758
Direct investment in Italy	14,874
Portfolio investment assets	-36,167
Portfolio investment liabilities	29,329
Other investment assets	717
Other investment liabilities	10,233
<b>Net Errors and Omissions</b>	1,940
<b>Reserves and Related Items</b>	588

### 33 BANKING AND SECURITIES

The Banca d'Italia, the central bank, was the sole bank of issue and exercises credit control functions until Italy's accession to the European Central Bank, which now controls monetary policy and the euro, the EU's common currency (excepting the United Kingdom, Denmark, and Sweden). La Banca d'Italia is still responsible for controlling domestic inflation and balance of payments pressures.

In March 1979, Italy became a founder member of the European Monetary System (EMS) and its Exchange Rate Mechanism (ERM). During the first ten years of its membership, the lira was allowed to diverge by up to 6% against other member currencies before action had to be taken, compared with 2.25% for other ERM currencies. Uncertainty about Italy's ability to meet the convergence targets of the 1992 Treaty for European Union (Maastricht) for inflation, interest rates, and participation to stabilize the rate, the lira was withdrawn from the ERM in September 1992, after which the lira declined to just under DM1:L1,000. At the beginning of 1996 it began to appreciate again, and immediately after the April election it rose to L1,021:DM1. The introduction of the euro in 2002, however, made all that irrelevant.

In 2002, five banks are of nationwide standing: Intesa-Bci, San Paolo-IMI, the Banca di Roma, Unicredito Italiano, and the Banca Nazionale del Lavoro. There are many major international banks with branches in Italy. Among the more important are Chase, Citibank, Bank of America, HSBC, and others. The Istituto Mobiliare Italiano is the leading industrial credit institution; it also administers important government industrial investments. In 1987, the government privatized Mediobanca, another major industrial credit institution.

Two major banks, formally part of the Istituto per la Ricostruzione Industriale (IRI) group, were privatized in 1993-94: Unicredito Italiano (CREDIT) and Banca Commerciale Italiana (COMIT). The privatization of another IRI bank specializing in medium- and long-term lending, the Istituto Mobiliare Italiano (IMI), was completed in 1996.

A new banking law was passed in 1993, to bring Italy into conformity with the EU's Second Banking directive, and to introduce two major innovations which aim to move Italy toward a model of universal banking. It allows banks to hold shares in industrial concerns; and it eliminates the distinction between banks (*aziende di credito*) and special credit institutions (*aziende di credito speciale*), thus allowing all banks to perform operations previously limited to specific types of intermediary.

On 30 January 1997, the government drafted legislation to promote restructuring and consolidation in Italy's largely inefficient and highly fragmented banking sector. The bill is the latest in a series of attempts since 1990 to rationalize the sector. However, it comes just as Italy's two biggest banks, CARIPO and what is now San Paolo-IMI, announced plans to begin

privatization by the end of 1997, and other banks in the private sector begin to negotiate strategic alliances, notably between: the private sector bank Ambroveneto and CARIPO; Cassa di Risparmio di Torino and the Cassa di Risparmio di Verona. Mergers are also changing the face of the Italian banking industry. In early 1999, four of the five largest Italian banks were involved in such deals. Unicredito Italiano and Banca Commerciale Italiana merged to form Eurobanca, while San Paolo-IMI and Banca di Roma also planned to combine their operations. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$458.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$628.9 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.26%.

There are 10 stock exchanges in operation. The most important is that in Milan (established in 1808). The others, in order of importance, are Rome (1812), Turin (1850), Genoa (1855), Bologna (1861), Florence (1859), Naples (1813), Venice (1600), Trieste (1755), and Palermo (1876). Since 1974, the markets have been regulated by the National Commission for Companies and the Stock Exchange.

Radical reforms have been introduced in recent years in order to vitalize the stock market, which is greatly undercapitalized considering the size of the Italian economy. At the end of 1995, the capitalization of the Milan bourse was the equivalent of just 18% of GDP, compared with 32% in France and 122% in the UK. However, by 2002 market capitalization had increased to 41% of GDP.

In September 1991, stock market intermediation companies (SIM), a new form of stockbroking and fund management firm, were introduced to accompany the shift from the open-outcry call auction system to a screen-based continuous auction market, which was completed in July 1994. In order to stimulate the demand for shares, in 1994 shareholders were given the option of paying a 12.5% flat tax rate instead of declaring dividends as part of taxable income. At the beginning of 1996, proposed Services Directive included the privatization of the stock market and the administrative bodies that run it as one of its main objectives.

Despite a certain amount of volatility, the Milan stock exchange index (MIB) has risen by 10.6% on 26 March 1997 since the end of 1996 and daily volume of transactions were up substantially. In early-mid-2000, the MIB index hovered between 31,700-31,800. However, since the onset of the global recession, the index has dropped significantly. From January 2002 to January 2003, the MIB dropped 4.4%, down to 16,208, slightly more than half of its peak value.

### 34 INSURANCE

The insurance industry is government-supervised, and insurers must be authorized to do business. Automobile insurance was made compulsory in 1971, and coverage is also required for aircraft, powerboats, hunters, auditors and yachts. Among the most important nonlife insurance companies in Italy as of 2002 were Ras, Generali, Sai, and Assitalia; leading life insurance companies as of 2002 included Alleanza, Creitras, Generali, and Roma. Total life insurance premiums written in 2001 equaled US\$68.988 billion compared to US\$35.7 billion in 1992. Of the 2001 total, life insurance premiums comprised US\$41.481 billion, and nonlife insurance premiums comprised US\$27.506 billion.

The insurance regulatory body is the Istituto per Vigilanza sulle Assicurazioni Private di Interesse Collettivo (ISVAP—the Institute for Control of Private Insurance Companies). European Union reporting and other insurance directives are being implemented. A unique and helpful feature of Italian insurance

company reports is the inclusion of financial statements of major subsidiary or affiliated companies.

The Italian insurance market was traditionally characterized by a relatively large number of insurers with no one organization dominating the industry, although there were some very large, old insurance organizations which date back to the early 19th century. There are a number of foreign insurance companies operating through subsidiaries in Italy: these are primarily French and German companies. Italy's market indicates moderately low penetration when compared to North America and Northern Europe, especially for life products. In recent years, the volume of life products has increased quite rapidly as the consumer has become aware that the Italian Social Security System benefits will have to be supplemented by individual savings and as insurance awareness has increased through advertising campaigns and the distribution of insurance products through the extensive branch banking system of the country. Foreign influence and industry consolidation in the Italian insurance industry is expected to rise due to the adoption of the euro and the emerging willingness of Italian companies to mount hostile takeover bids. Much of the new merger-mania expected to sweep Italian insurance is projected to come from the banking sector as banks continue to expand their interests in insurance sales.

### 35 PUBLIC FINANCE

Reflecting both increasing economic activity and the pressures of inflation, the Italian budget has expanded continually since 1950. The Italian economy has traditionally run a high government debt, but in recent years it has been quelled somewhat, despite lackluster growth. In 1995, the debt stood at 124% of GDP, but declined to 110.6% in 2000 and 109.4% in 2001. At that point the Italian government still had a long way to go to get down to the EU-imposed debt-to-GDP ratio of 60%. Since 1996, Italy has maintained a primary budget surplus, net of interest payments, and has reduced its deficit in public administration from 1.7% of GDP in 2000 to 1.4% in 2001. However, given the high national debt, the EU remains concerned about Italy's budgetary policies.

The US Central Intelligence Agency (CIA) estimates that in 2001 Italy's central government took in revenues of about \$504 billion and had expenditures of \$517 billion. Overall, the government registered a deficit of approximately \$13 billion.

The following table shows an itemized breakdown of government revenues. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	102.2%	515,050
Tax revenue	93.7%	472,493
Non-tax revenue	6.8%	34,204
Capital revenue	0.1%	576
Grants	1.5%	7,777

### 36 TAXATION

The Italian tax system is considered among the most complicated in the world. Since the late 1990's, the government has been using tax cuts to stimulate economic growth. On 1 January 1998 the government introduced the Dual Income Tax (DIT) system designed to encourage investment by taxing income deemed to be derived from the increase in equity capital in a company at a lower rate than the standard corporate income tax rate. In 2003, the corporate income tax rate (IRPEG), at 36% in 2002, was reduced to 34%, while the preferential DIT rate remained at 19%. Companies are also liable for a 4.25% regional tax on productive activities (IRAP). Capital gains realized by companies

are taxable as business income under the IRPEG and IRAP, and capital losses are deductible. Dividends are taxed at 27% with complete withholding ("payment at the source" or PAYE). This rate may be reduced to either 15% if nonresidents can show that dividends are also taxed in their place of residence, or to rates as low as 0% depending on the terms of bilateral double tax avoidance agreements with the nonresidents' governments. The PAYE rate for dividends paid to branches of companies from other EU countries is 12.5%

The schedule of personal income tax rates was reformed in 2003 to reduce tax rates and to increase the amount covered by the lowest band (from 15 million lire to 20 million lire, or about €7,750 to €10,330.) The set of rates in 2002 (18.5%, 25.5%, 33.5%, 39.5%, and 45.5%) was transformed into a reduced set: 18% (to €10,330); 24% (from €10,329 to €15,494); 32% (€15,494 to €30,987); 39% (from €30,987 to €69,722); and 45% beyond €69,722. On 25 October 2001 Italy's gift and inheritance taxes were abolished by the Parliament.

Italy's main indirect tax is its value-added tax (VAT) introduced on 1 January 1973 with a standard rate of 12%, replacing a turnover tax on goods and services. Since 10 January 1997 the standard rate has been 20% applicable to most goods and services. A reduced rate of 4% applies to basic foodstuffs, books, newspapers and periodicals, agricultural inputs, medical equipment, social housing and social services. Basic medical and dental services are exempt from VAT. A 0% rate is applied to supplies of unwrought gold and ferrous and non-ferrous metal scrap, and land not suitable for buildings. Other taxes on transactions include stamp taxes, and contract registration tax.

### 37 CUSTOMS AND DUTIES

Italy's membership in the European Union has greatly influenced its tariff structure. Duties on imports from then-European Community members and their dependencies were gradually reduced following the Rome Pact in 1957 and disappeared by 1969, more than a year ahead of schedule. Duties on goods from Greece, which entered the European Community in 1981, were reduced gradually and eliminated by 1986. Italy's adjustment of its tariff structure to that of the now-European Union also has resulted in a substantial reduction of duties on products imported from areas other than the European Union, including the United States.

Import duties on manufactured goods from non-EU countries range from 5% to 8%, while raw materials enter mostly duty-free. Other import taxes include a value-added tax (VAT) that ranges from 0–20% depending on the product and excise taxes on alcoholic beverages, tobacco, sugar and petroleum products.

### 38 FOREIGN INVESTMENT

Because of a lack of domestic venture capital, the government encourages foreign industrial investment through tax concessions on a case-by-case basis. Foreign ownership, however, is limited by law and includes the following regulations: foreign investment in can be limited for "reasons essential to the national economy." As a consequence, foreign investment in banks is limited to less than 5% of an institution's capital without government consent. Although privatization is encouraging foreign investment, defense industries remain off limits to non-Italians. In an effort to increase confidence of foreign investors in Italy's economic development, the government has enacted legislation providing special incentives, particularly for investments in the south—Sicily, Sardinia, and the peninsula south of Rome. In recent years, and in accordance with EU liberalization, foreign restrictions on foreign investment in Italy have eased.

Annual foreign direct investment (FDI) into Italy was \$2.6 billion, down from \$3.7 billion in 1997. Total FDI stock in Italy in 1998 was about \$103 billion. Annual FDI inflow jumped to almost \$7 billion in 1999 and continued to increase for the next

three years: to \$13.4 billion in 2000, \$14.9 billion in 2001, and \$15.2 billion in 2002, an average of \$13.7 billion a year. Total FDI stock in Italy reached about \$140 billion by 2002. Italy has remained an underachiever, however, in the attraction of FDI. For the period 1988 to 1990, Italy's share of world FDI inflows was only 60% of its share of world GDP. For the period 1998 to 2000, Italy's share of world inward FDI had dropped to only 20% of its share of world GDP. About 63% of inward stock in the 1990s has come from EU countries, up from 55% in the 1980s.

In the 1980s, outward FDI had about equaled inward FDI in Italy, but in the 1990s Italy became a net outward investor. From 1999 to 2002, average annual outward FDI from Italy was \$18.4 billion. As of 2001, FDI stock held by Italians in foreign countries totaled about \$236 billion. Roughly 60% of Italian holdings of outward stock in the 1990s were in EU countries, the same as in the 1980s.

### 39 ECONOMIC DEVELOPMENT

Under Mussolini, business and labor were grouped into corporations that, in theory at least, jointly determined economic policy. Also, under the Fascist regime, direct government control over the economy was increased through the creation of powerful economic bodies, such as the Institute for Industrial Reconstruction. Although the corporative system disappeared after the fall of Mussolini, the concept of economic planning remained firmly implanted among the large Marxist parties, as well as among Christian Democratic leaders, who—by different means and for different reasons—sought to create a society free from the class warfare associated with a strictly liberal economic system.

Principal government objectives following World War II were reconstruction of the economy; stabilization of the currency; and long-term, large-scale investment aimed at correcting the imbalance of the Italian economy and, in particular, the imbalance between northern and southern Italy. The first and second phases of this policy were accomplished by 1949. Then the government, supported by domestic financial and industrial groups and by foreign aid, principally from the United States, embarked on the third and most important phase, best known as the Vanoni Plan (after former finance minister Ezio Vanoni). Notable in this development effort has been the Cassa per il Mezzogiorno, a government agency set up to develop southern Italy and attract private investment to the region. Between 1951 and 1978, government spending on infrastructure in the south was \$11.5 billion; additional low-cost loans totaled \$13 billion, and outright grants amounted to \$3.2 billion.

Simultaneously, direct government control of the economy increased through such government agencies as ENI, whose activities expanded rapidly in the postwar era. The nationalization of the electric industry, in order to lay the industrial base for a more highly planned economy, and the creation of the National Economic Planning Board composed of leaders from government, industry, and labor are further indications of the importance attached to the concept of a planned Italian economy.

The combined effects of inflation, increased energy prices, and political instability posed serious economic problems during the 1970s. With Italy mired in recession in the early 1980s, economic policy was directed at reducing the public sector deficit, tightening controls on credit, and maintaining a stable exchange rate, chiefly through a variety of short-term constraints. A period of recovery began in 1983, leading to expanded output and lower inflation but also to expanded unemployment. The economic policy aims in 1987 included the reduction of the public-sector deficit and unemployment. Furthermore, improvement in the external sector (due mainly to the fall of oil prices and

depreciation of the dollar) led to liberalization of the foreign exchange market in May 1987.

Priorities of the early 1990s were cutting government spending, fighting tax evasion to reduce public debt, and selling off state-owned enterprises. At the end of the decade the results of these policies were mixed. Liberalization provided the impetus for greater foreign investment, while the funds generated from privatization eased the public debt. Italy qualified for the first round of European Monetary Union (EMU) and entered the euro zone in 1999. Tax evasion remains a problem; the underground economy is still estimated at nearly 25% of official GDP. Moreover, the economic disparities between the prosperous north and the impoverished south remain.

The strength of the economy rests on the back of small- and medium-sized family-owned companies, mostly in the north and center of the country. In 1999, the average Italian company employed 3.6 people, and industrial companies had an average of 8.7 employees, compared with an average 15 employees in the EU. In mid-2000, Italy's largest state holding company, Istituto per la Ricostruzione Industriale (IRI), was liquidated.

Italy's national debt stood at 109.4% of GDP in 2001, down from 124% in 1995. The EU's mandated debt to GDP ratio is 60%. The budget deficit was 2.3% of GDP in 2002, and was expected to widen in 2003 before narrowing in 2004. GDP growth remained slow at 0.6% in 2003, due in part to a deterioration in business and consumer confidence, but was expected to pick up to around 1.6% in 2004. Reform of the pension system was a controversial government measure in 2003.

### 40 SOCIAL DEVELOPMENT

Social welfare legislation in Italy, begun in 1898, was redesigned by law in 1952 and has subsequently been expanded. All workers and their families are covered and receive old-age, disability, and survivor pensions, unemployment and injury benefits, health and maternity coverage. The system is primarily funded by employer contributions, along with employee payments and some government subsidies. Family allowances are paid for primarily by employer contributions, and are determined by the size and income of the family.

Despite full legal rights under law, women face considerable social discrimination in Italy. On average, women earn 23% less than men and are underrepresented in management, the professions, and other areas. The unemployment rate for women is nearly double that for men. Sexual harassment is addressed through provisions in labor contracts. There are several governmental bodies charged with ensuring women's rights, including the Ministry for Equal Opportunity. Sexual abuse and violence remain a problem, although when reported the authorities prosecute perpetrators, and assist victims. The government is committed to protecting and promoting children's rights.

Human rights are generally respected in Italy. Lengthy pretrial detentions still occur due to the slow pace of the judicial system, and occasional cases of the mistreatment of prisoners were reported. Discrimination based on race, sex, religion, ethnicity, disability, and language is prohibited by law.

### 41 HEALTH

A national health plan, begun in 1980, seeks to provide free health care for all citizens, but certain minimum charges remain. It is financed by contributions from salaries, by employers, and by the central government. Patients are still able to choose their own health care providers. Reform implementation in the 1980s and 1990s has been difficult. In 1994, the government announced plans to dismantle public universal insurance. Reforms in 1999 sought to integrate primary care with other health care programs, including home care, social services, and health education. Consistent health reforms are hampered by frequent political

changes in administration. Most private hospitals have contracts with the national plan, but health care services are more highly concentrated in the northern regions of Italy. The shortage of medical personnel and hospital facilities in Italy's rural areas remains serious. Closure of a number of underutilized hospitals was planned and the government has been making efforts to curb the state deficit in health expenditures; budgets and estimates are repeatedly more than demand. Health care expenditures as of 1999 were 8.2% of GDP.

As of 1999, there were an estimated 5.9 physicians and 5.5 hospital beds per 1,000 people. In the same year, Italy had 842 public hospitals and 539 private ones, for a total of approximately 276,000 beds.

The infant mortality rate, 72.1 per 1,000 live births in 1948, decreased to 5 per 1,000 by 2000, when average life expectancy was estimated to be 79 years. As of 2002, birth and death rates were estimated respectively at 8.9 and 10.1 per 1,000 people. In 1994, 78% of married women (ages 15 to 49) were using contraception.

In 1999, immunization rates for children up to one year of age were: diphtheria, pertussis, and tetanus, 95%, and measles, 70%. The major causes of death per 100,000 in 1991 were the following: circulatory system diseases (425.3), cancers (260.6), respiratory diseases (59.6), and accidents and violence (53.2). More men (38% 15 and over) smoked than women (26% 15 and over) in 1994.

As of 1999, the number of people living with HIV/AIDS was estimated at 95,000 and deaths from AIDS that year were estimated at 1,000. HIV prevalence was 0.4 per 100 adults.

## 42 HOUSING

Italy's housing and public building program was a major item in the general program of postwar reconstruction. Between 1940 and 1945, almost 20% of the habitable rooms in the country were destroyed. From June 1945 to June 1953, however, of the 6,407,000 rooms destroyed or severely damaged, 354,100 were rebuilt and 4,441,000 were repaired. Under a special housing program, originally instituted with funds from UNRRA and subsequently financed by employer and employee contributions, a total of 15 million rooms were constructed between 1953 and 1961, alleviating the nation's immediate housing problems.

In the 1980s 59% of all dwellings were owner occupied and 36% were rented. Almost 88% had indoor flush toilets, 99.5% had electricity, 59% had central heating, and 34% were heated by a stove or similar source. In 1999, 156,000 new dwellings were completed.

## 43 EDUCATION

For the year 2000, adult illiteracy was estimated at 1.5% (males, 1.1%; females, 1.9%). Education is free and compulsory for eight years (for children between the ages of 6 and 14). In the 1997 academic year, there were 2,810,158 students enrolled in elementary schools. An additional 4,602,243 students were enrolled in secondary schools in the same year. In 1999, 99.7% of primary-school-age children were enrolled in school, while 88% of those eligible attended secondary school. In the same year, public expenditure on education was estimated at 4.7% of GDP.

Higher educational institutes had a total enrollment of 1,892,542 students in 1997. There are 41 state universities and 15 other universities, colleges, and higher learning institutes, including the University of Bologna (founded in the 11th century), the oldest in Italy and the University of Rome, which is the country's largest.

## 44 LIBRARIES AND MUSEUMS

Italy, with its rich cultural heritage, is one of the world's great storehouses of books and art. Among its many of libraries, the most important are the national libraries in Florence (5.3 million

volumes), Rome (five million), Naples (1.73 million), Milan (one million), Turin (973,000) and Venice (917,000). The Estense Library in Modena holds 425,600 volumes, including illuminated manuscripts from the 14th to 18th centuries. The university libraries in Bologna (1.1 million volumes) and Naples (750,000 volumes) each hold important collections. The Medici-Laurentian and Marucelliana (544,000) libraries in Florence and the Ambrosiana Library in Milan are also important research centers. In 1997, Italy's public library system had 84 branches and held a total of 41 million volumes.

Italy, a world center of culture, history and art, has more than 3,000 museums. Among the more important are the Villa Giulia Museum and the National Gallery in Rome; the National Museum in Naples; the National Museum in Palermo; the Galleria dell'Accademia, and Uffizi, Medici, Pitti, Bargello, and St. Mark's Museums in Florence; the National Museum in Cagliari, Sardinia; the Brera Museum in Milan; the Museum of Siena; the Archaeological Museum of Syracuse (Siracusa); the National Museum of Urbino; and The Academy and Libreria Sansoviniana in Venice. A Goethe museum, with manuscripts and illustrations describing Goethe's travels in Italy, opened in 1997 in Rome. Villa Torlonia, Mussolini's home, was renovated in 2001 and opened as a museum.

## 45 MEDIA

The Italian communications system is supervised or owned by the government. In 1999 there were 25 million mainline telephones in use and 20.5 million mobile cellular phones. Post offices and telegraph offices also are operated by the government. Radiotelevisione Italiana (RAI), a government corporation, broadcasts on three radio and three television networks. Until 1976, RAI had a broadcasting monopoly, but since then, numerous private radio and television stations have begun operating. Advertising appears on RAI television, two of the three RAI radio networks, and on many private stations. As of 1999 there were 135 AM and 28 FM radio stations and 6,317 television stations (including over 5,000 low-powered, public channels). In 2000, there were 878 radios and 494 television sets per 1,000 people. The same year, there were about 180 personal computers in use for every 1,000 people, with 93 Internet service providers serving about 19 million users in 2001.

The major daily newspapers (with their political orientations and estimated 2002 circulations) are as follows:

	ORIENTATION	CIRCULATION
<i>Corriere della Sera</i> (Milan)	Independent	868,200
<i>La Repubblica</i> (Rome)	Left-wing	754,900
<i>La Stampa</i> (Turin)	Liberal	536,200
<i>Il Sole-24 Ore</i> (Milan)	NA	455,451
<i>Il Giornale</i> (Milan)	Independent	351,790
<i>Il Messaggero</i> (Rome)	Left of center	337,100
<i>La Nazione</i> (Florence)	Right-wing	213,900
<i>L'Unità</i> (Rome-Milan)	Communist	200,760

The periodical press is becoming increasingly important. Among the most important periodicals are the pictorial weeklies—*Oggi*, *L'Europeo*, *Epoca*, *L'Espresso*, and *Gente*.

Italy enjoys a free press, with vigorous expression of all shades of opinion. The majority of papers are published in northern and central Italy, and circulation is highest in these areas. Rome and Milan are the most important publication centers. A considerable number of dailies are owned by the political parties, the Roman Catholic Church, and various economic groups. In general, the journalistic level of the Italian papers is high, and two dailies, Milan's *Corriere della Sera* and Turin's *La Stampa*, enjoy international respect.

The law provides for freedom of speech and the press, and the government is said to respect these rights in practice.

As of 1996, there were almost five million personal computers; in 1998 there were 56 Internet hosts per 1,000 population in Italy.

#### 46 ORGANIZATIONS

Italian society abounds with organizations of every description. Many of these are associated with or controlled by political parties, which have their ideological counterparts in labor organizations, agricultural associations, cultural groups, sports clubs, and cooperatives. Among the most important organizations are the National Confederation of Smallholders and the General Confederation of Italian Industry, which strongly influences economic policy. The General Confederation of Agriculture, the General Confederation of Trade, and the General Confederation of Master Craftsmen also are influential. There are chambers of commerce in most major cities. Catholic Action and the Catholic Association of Italian Workers are the most prominent of the religious organizations.

A number of political and religious organizations sponsor youth chapters. Scouting programs and chapters of the YMCA/YWCA are also active for youth. National women's organizations include the National Italian Women's Council, the Italian Association for Women in Development, and the Italian Women's Center, based in Rome.

International organizations within the country include Amnesty International and the Red Cross.

#### 47 TOURISM, TRAVEL, AND RECREATION

Among Italy's manifold tourist attractions are the artistic and architectural treasures of Rome and Florence; the thousands of historic churches and galleries in smaller cities; the canals and palaces of Venice; the ruins of ancient Pompeii; the Shroud of Turin, reputed to be the burial cloth of Jesus; and the delicacies of northern Italian cooking, as well as the heartier fare of the south. Tourists are also lured by Italy's many beaches and by excellent Alpine skiing. Italians enjoy a wide variety of sports, including football (soccer), bowling, tennis, track, and swimming. Italy won the World Cup in soccer three times, in 1934 (as host), 1938, and 1982. Cortina d'Ampezzo, in the Dolomites, was the site of the 1956 Winter Olympics, and Rome hosted the Summer Olympics in 1960.

Citizens of the US and of many other countries need only a valid passport for short trips in Italy; for longer sojourns, a permit is necessary. No passport is required of nationals of EC member countries.

Tourism is a major industry in Italy, which ranked as Europe's third most popular tourist destination in 1998, when 58,499,000 visitors from abroad arrived in the country. In 2000, revenues from the tourist industry reached \$27.5 billion with 62,702,228 visitor arrivals. That year there were 1,854,100 beds available in hotels and other accommodations.

In 2002, the US government estimated the cost of staying in Milan at \$353 per day. Daily expenses were estimated at \$366 in Rome, \$238 in Venice, and \$249 in Florence.

#### 48 FAMOUS ITALIANS

The Italian peninsula has been at the heart of Western cultural development at least since Roman times. Important poets of the Roman republic and empire were Lucretius (Titus Lucretius Carus, 96?-55 BC), Gaius Valerius Catullus (84?-54 BC), Vergil (Publius Vergilius Maro, 70-19 BC), Horace (Quintus Horatius Flaccus, 65-8 BC), and Ovid (Publius Ovidius Naso, 43 BC-AD 18). Also prominent in Latin literature were the orator-rhetorician Marcus Tullius Cicero (106-43 BC); the satirists Gaius Petronius Arbiter (d. AD 66) and Juvenal (Decimus Junius Juvenalis, AD 60?-140?); the prose writers Pliny the Elder (Gaius Plinius Secundus, AD 23-79), his nephew Pliny the Younger (Gaius Plinius Caecilius Secundus, AD 61?-113?), and Lucius

Apuleius (AD 124?-170?); and the historians Sallust (Gaius Sallustius Crispus, 86-34 BC), Livy (Titus Livius, 59 BC-AD 17), Cornelius Tacitus (AD 55?-117), and Suetonius (Gaius Suetonius Tranquillus, AD 69?-140). Gaius Julius Caesar (100?-44 BC), renowned as a historian and prose stylist, is even more famous as a military and political leader. The first of the Roman emperors was Octavian (Gaius Octavianus, 63 BC-AD 14), better known by the honorific Augustus. Noteworthy among later emperors are the tyrants Caligula (Gaius Caesar Germanicus, AD 12-41) and Nero (Lucius Domitius Ahenobarbus, AD 37-68), the philosopher-statesman Marcus Aurelius (Marcus Annius Verius, AD 121-180), and Constantine I (the Great; Flavius Valerius Aurelius Constantinus, b. Moesia, 280?-337), who was the first to accept Christianity. No history of the Christian Church during the medieval period would be complete without mention of such men of Italian birth as St. Benedict of Nursia (480?-543?), Pope Gregory I (St. Gregory the Great, 540?-604), St. Francis of Assisi (1182?-1226), and the philosopher-theologians St. Anselm (1033?-1109) and St. Thomas Aquinas (1225-74).

No land has made a greater contribution to the visual arts. In the 13th and 14th centuries there were the sculptors Niccolò Pisano (1220-84) and his son Giovanni (1245-1314); the painters Cimabue (Cenni di Pepo, 1240-1302?), Duccio di Buoninsegna (1255?-1319), and Giotto di Bondone (1276?-1337); and, later in the period, the sculptor Andrea Pisano (1270?-1348). Among the many great artists of the 15th century—the golden age of Florence and Venice—were the architects Filippo Brunelleschi (1377-1446), Lorenzo Ghiberti (1378-1455), and Leone Battista Alberti (1404-72); the sculptors Donatello (Donato di Niccolò di Betto Bardi, 1386?-1466), Luca della Robbia (1400-1482), Desiderio da Settignano (1428-64), and Andrea del Verrocchio (1435-88); and the painters Fra Angelico (Giovanni de Fiesole, 1387-1455), Sassetta (Stefano di Giovanni, 1392-1450?), Uccello (Paolo di Dono, 1397-1475), Masaccio (Tomasso di Giovanni di Simone Guidi, 1401-28?), Fra Filippo Lippi (1406?-69), Piero della Francesca (Pietro de' Franceschi, 1416?-92), Giovanni Bellini (1430?-1516), Andrea Mantegna (1431-1506), Antonio dei Pollaiuolo (1433-98), Luca Signorelli (1441?-1523), Perugino (Pietro Vannucci, 1446-1524), Sandro Botticelli (Alessandro Filipepi, 1447?-1510), Ghirlandaio (Domenico Currado Bigordi, 1449-94), and Vittore Carpaccio (1450-1522).

During the 16th century, the High Renaissance, Rome shared with Florence the leading position in the world of the arts. Major masters included the architects Bramante (Donato d'Agnolo, 1444?-1514) and Andrea Palladio (1508-80); the sculptor Benvenuto Cellini (1500-1571); the painter-designer-inventor Leonardo da Vinci (1452-1519); the painter-sculptor-architect-poet Michelangelo Buonarroti (1475-1564); and the painters Titian (Tiziano Vecelli, 1477-1576), Giorgione da Castelfranco (Giorgio Barbarelli, 1478?-1510), Raphael (Raffaello Sanzio, 1483-1520), Andrea del Sarto (1486-1531), and Correggio (Antonio Allegri, 1494-1534). Among the great painters of the late Renaissance were Tintoretto (Jacopo Robusti, 1518-94) and Veronese (Paolo Cagliari, 1528-88). Giorgio Vasari (1511-74) was a painter, architect, art historian, and critic.

Among the leading artists of the Baroque period were the sculptor and architect Giovanni Lorenzo Bernini (1598-1680) and the painters Michelangelo Merisi da Caravaggio (1560?-1609), Giovanni Battista Tiepolo (1690-1770), Canaletto (Antonio Canal, 1697-1768), Pietro Longhi (1702-85), and Francesco Guardi (1712-93). Leading figures in modern painting were Umberto Boccioni (1882-1916), Amedeo Modigliani (1884-1920), Giorgio di Chirico (b. Greece, 1888-1978), and Giorgio Morandi (1890-1964). A noted contemporary architect was Pier Luigi Nervi (1891-1979).

Music, an integral part of Italian life, owes many of its forms as well as its language to Italy. The musical staff was either



invented or established by Guido d'Arezzo (995?–1050). A leading 14th-century composer was the blind Florentine organist Francesco Landini (1325–97). Leading composers of the High Renaissance and early Baroque periods were Giovanni Pierluigi da Palestrina (1525–94); the madrigalists Luca Marenzio (1533–99) and Carlo Gesualdo, prince of Venosa (1560?–1613); the Venetian organists Andrea Gabrieli (1510?–86) and Giovanni Gabrieli (1557–1612); Claudio Monteverdi (1567–1643), the founder of modern opera; organist-composer Girolamo Frescobaldi (1583–1643); and Giacomo Carissimi (1605–74). Important figures of the later Baroque era were Arcangelo Corelli (1653–1713), Antonio Vivaldi (1678–1743), Alessandro Scarlatti (1660–1725), and his son Domenico Scarlatti (1683–1757). Italian-born Luigi Cherubini (1760–1842) was the central figure of French music in the Napoleonic era, while Antonio Salieri (1750–1825) and Gasparo Spontini (1774–1851) played important roles in the musical life of Vienna and Berlin, respectively. Composers of the 19th century who made their period the great age of Italian opera were Gioacchino Antonio Rossini (1792–1868), Gaetano Donizetti (1797–1848), Vincenzo Bellini (1801–35), and, above all, Giuseppe Verdi (1813–1901). Niccolò Paganini (1782–1840) was the greatest violinist of his time. More recent operatic composers include Ruggiero Leoncavallo (1853–1919), Giacomo Puccini (1858–1924), and Pietro Mascagni (1863–1945). Renowned operatic singers include Enrico Caruso (1873–1921), Luisa Tetrazzini (1874–1940), Titta Ruffo (1878–1953), Amelita Galli-Curci (1882–1963), Beniamino Gigli (1890–1957), Ezio Pinza (1892–1957), and Luciano Pavarotti (b.1935). Ferruccio Busoni (1866–1924), Ottorino Respighi (1879–1936), Luigi Dallapiccola (1904–75), Luigi Nono (1924–1990), and Luciano Berio (b.1925) are major 20th-century composers. Arturo Toscanini (1867–1957) is generally regarded as one of the greatest operatic and orchestral conductors of his time; two noted contemporary conductors are Claudio Abbado (b.1933) and Riccardo Muti (b.1941). The foremost makers of stringed instruments were Gasparo da Salò (Bertolotti, 1540–1609) of Brescia, Niccolò Amati (1596–1684), Antonius Stradivarius (Antonio Stradivari, 1644–1737), and Giuseppe Bartolommeo Guarneri (del Gesù, 1687?–1745) of Cremona. Bartolommeo Cristofori (1655–1731) invented the pianoforte.

Italian literature and literary language began with Dante Alighieri (1265–1321), author of *The Divine Comedy*, and subsequently included Petrarch (Francesco Petrarca, 1304–74), Giovanni Boccaccio (1313–75), Lodovico Ariosto (1474–1533), Pietro Aretino (1492–1556), and Torquato Tasso (1544–95). An outstanding writer of the Baroque period was Metastasio (Pietro Trapassi, 1698–1782), and Carlo Goldoni (1707–93) was the most prominent playwright of the 18th century. The time of Italy's rebirth was heralded by the poets Vittorio Alfieri (1749–1803), Ugo Foscolo (1778–1827), and Giacomo Leopardi (1798–1837). Alessandro Manzoni (1785–1873) was the principal Italian novelist of the 19th century, and Francesco de Sanctis (1817–83) the greatest literary critic. Among the Italian literary figures of the late 19th and early 20th centuries, Giosuè Carducci (1835–1907; Nobel Prize winner, 1906), Giovanni Verga (1840–1922), Gabriele d'Annunzio (1863–1938), Luigi Pirandello (1867–1936; Nobel Prize winner, 1934), and Grazia Deledda (1875–1936; Nobel Prize winner, 1926) achieved international renown. Leading writers of the postwar era are Ignazio Silone (Secondo Tranquilli, 1900–78), Alberto Moravia (Pincherle, 1907–1990), Italo Calvino (1923–87), Umberto Eco (b.1932), and the poets Salvatore Quasimodo (1908–68; Nobel Prize winner, 1959) and Eugenio Montale (1896–1981; Nobel Prize winner, 1975). Outstanding film directors are Italian-born Frank Capra (1897–1991), Vittorio de Sica (1902–74), Luchino Visconti (1906–76), Roberto Rossellini (1906–77), Michelangelo Antonioni (b.1912), Federico Fellini (1920–93), Sergio Leone

(1929–1989), Pier Paolo Pasolini (1922–75), Franco Zeffirelli (b.1923), Lina Wertmüller (Arcangela Felice Assunta Wertmüller von Elgg, b.1928), and Bernardo Bertolucci (b.1940). Famous film stars include Italian-born Rudolph Valentino (Rodolfo Alfonso Raffaele Pierre Philibert Guglielmi, 1895–1926), Marcello Mastroianni (1924–1996), and Sophia Loren (Scicoloni, b.1934).

In philosophy, exploration, and statesmanship, Italy has produced many world-renowned figures: the traveler Marco Polo (1254?–1324); the statesman and patron of the arts Cosimo de' Medici (1389–1464); the statesman, clergyman, and artistic patron Roderigo Borgia (Lanzol y Borja, b. Spain, 1431?–1503), who became Pope Alexander VI (r.1492–1503); the soldier, statesman, and artistic patron Lorenzo de' Medici, the son of Cosimo (1449–92); the explorer John Cabot (Giovanni Caboto, 1450?–98?); the explorer Christopher Columbus (Cristoforo Colombo or Cristóbal Colón, 1451–1506); the explorer Amerigo Vespucci (1454–1512), after whom the Americas are named; the admiral and statesman Andrea Doria (1468?–1540); Niccolò Machiavelli (1469–1527), author of *The Prince* and the outstanding political theorist of the Renaissance; the statesman and clergyman Cesare Borgia (1475?–1507), the son of Rodrigo; the explorer Sebastian Cabot (1476?–1557), the son of John; Baldassare Castiglione (1478–1529), author of *The Courtier*; the historian Francesco Guicciardini (1483–1540); the explorer Giovanni da Verrazano (1485?–1528?); the philosopher Giordano Bruno (1548?–1600); the political philosopher Giovanni Battista Vico (1668–1744); the noted jurist Cesare Bonesana Beccaria (1735–94); Giuseppe Mazzini (1805–72), the leading spirit of the Risorgimento; Camillo Benso di Cavour (1810–61), its prime statesman; and Giuseppe Garibaldi (1807–82), its foremost soldier and man of action. Notable intellectual and political leaders of more recent times include the Nobel Peace Prize winner in 1907, Ernesto Teodoro Moneta (1833–1918); the sociologist and economist Vilfredo Pareto (1848–1923); the political theorist Gaetano Mosca (1858–1941); the philosopher, critic, and historian Benedetto Croce (1866–1952); the educator Maria Montessori (1870–1952); Benito Mussolini (1883–1945), the founder of Fascism and dictator of Italy from 1922 to 1943; Carlo Sforza (1873–1952) and Alcide De Gasperi (1881–1954), famous latter-day statesmen; and the Communist leaders Antonio Gramsci (1891–1937), Palmiro Togliatti (1893–1964), and Enrico Berlinguer (1922–84).

Italian scientists and mathematicians of note include Leonardo Fibonacci (1180?–1250?), Galileo Galilei (1564–1642), Evangelista Torricelli (1608–47), Francesco Redi (1626?–97), Marcello Malpighi (1628–94), Luigi Galvani (1737–98), Lazzaro Spallanzani (1729–99), Alessandro Volta (1745–1827), Amedeo Avogadro (1776–1856), Stanislaw Cannizzaro (1826–1910), Camillo Golgi (1843–1926; Nobel Prize winner, 1906), Guglielmo Marconi (1874–1937; Nobel Prize winner, 1909), Enrico Fermi (1901–54; Nobel Prize winner, 1938), Giulio Natta (1903–79; Nobel Prize winner, 1963), Daniel Bovet (1907–1992; Nobel Prize winner, 1957), Renato Dulbecco (b.1914; Nobel Prize winner, 1975), Carlo Rubbia (b.1934; Nobel Prize winner, 1984), and Rita Levi-Montalcini (1909–1989; Nobel Prize winner, 1986).

## 49 DEPENDENCIES

Italy has no territories or colonies.

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# LATVIA

Republic of Latvia  
*Latvijas Republika*

**CAPITAL:** Riga

**FLAG:** The flag consists of a single white horizontal stripe on a maroon field.

**ANTHEM:** *Dievs, sveti Latviju! (God bless Latvia!)*

**MONETARY UNIT:** The lat was introduced as the official currency in May 1993; \$1 = Ls0.57; as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** New Year's Day, 1 January; Good Friday (movable); Midsummer Festival, 23–24 June; National Day, Proclamation of the Republic, 18 November; Christmas, 25–26 December; New Year's Eve, 31 December.

**TIME:** 2 PM = noon GMT.

## **1**LOCATION, SIZE, AND EXTENT

Latvia is located in northeastern Europe, bordering the Baltic Sea, between Sweden and Russia. Comparatively, Latvia is slightly larger than the state of West Virginia, with a total area of 64,589 sq km (24,938 sq mi). Latvia shares boundaries with Estonia on the N, Russia on the E, Belarus on the S, Lithuania on the SW, and the Baltic Sea on the W. Latvia's land boundary length totals 1,150 km (713 mi). Its coastline is 531 km (330 mi). Latvia's capital city, Riga, is located near the southern edge of the Gulf of Riga.

## **2**TOPOGRAPHY

The topography of Latvia consists mainly of a lowland plain with a few areas of uplands consisting of moderate-sized hills.

## **3**CLIMATE

The country's climate is influenced by geographical location and by its closeness to the North Atlantic Ocean. The average temperature in July is between 16.8°C and 17.6°C (62–64°F). In January the average temperature ranges between –2.8°C and 6.6°C (31–44°F). The rainfall in the country is between 56–79 cm (22–31 in).

## **4**FLORA AND FAUNA

Half of Latvia's soil is podsolc humus, which covers one-third of the country's arable land. Woodlands make up 41% of the country's territory, with one-half of the forests consisting of pines, birch, and firs. The woodlands and plant life support 14,000 different animal species. Species native to Latvia are the wild boar, Eurasian beaver, and brown bear. The routes of migratory birds pass along the Black Sea and over the country.

## **5**ENVIRONMENT

Air and water pollution are among Latvia's most significant environmental concerns and are largely related to a lack of waste treatment facilities. In 1996, industrial carbon dioxide emissions totaled 9.2 million metric tons. Cars and other vehicles account

for 70% of the country's air pollution. Acid rain has contributed to the destruction of Latvia's forests.

Latvia's water supply is perilously polluted with agricultural chemicals and industrial waste. The Gulf of Riga and the Dāvģava River are both heavily polluted. A majority of the nation's sewage does not receive adequate treatment. Almost half the nation's water contains bacteria levels that are beyond accepted safety limits.

One hundred twelve plant species, 20 types of lichen, and 32 types of mushrooms are endangered. Four mammal species and six bird species are also threatened. Threatened animal species include the marsh snail and the Russian desman.

## **6**POPULATION

The population of Latvia in 2003 was estimated by the United Nations at 2,307,000, which placed it as number 138 in population among the 193 nations of the world. In that year approximately 15% of the population was over 65 years of age, with another 17% of the population under 15 years of age. There were 85 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is –0.93%, with the projected population for the year 2015 at 2,064,000. The population density in 2002 was 36 per sq km (94 per sq mi).

It was estimated by the Population Reference Bureau that 69% of the population lived in urban areas in 2001. The capital city, Riga, had a population of 783,000 in that year. Daugavpils had an estimated 124,887 people and Liepāja, 108,256. There were 75 urban localities, many located on rivers or coastal areas. According to the United Nations, the urban population growth rate for 2000–2005 was –1.0%.

## **7**MIGRATION

Some 250,000 Latvians fled Soviet occupation during World War II, and others were sent to Soviet labor camps. After the war many Russians moved to Latvia.

With independence in 1991, citizenship issues surrounding the large non-Latvian ethnic population became a problem. Only

55% were ethnic Latvians; 32% were Russians; 3.9% Belarussians; and 9.1% other. Immigration from other former Soviet republics came to 4,590 in 1992. A breakthrough came in 1998 when the Citizenship Law was changed, abolishing the annual quota of naturalizations and entitling children born after independence to automatically acquire Latvian citizenship upon request from their parents. A total of 51,778 persons emigrated when Latvia gained independence in 1991, 48,058 to other former Soviet republics. Almost all of them went to Russia, Ukraine, or Belarus.

In 2000 there were 613,000 migrants living in Latvia. This amounts to about 25% of the total population. The government views the immigration level as too high, but the emigration level as satisfactory. In 2000, the net migration rate was -2.0 migrants per 1,000 population, down from -8.8 per 1,000 in 1990.

## 8 ETHNIC GROUPS

In 1935, the population was 77% Latvian, but according to 2002 estimates, the percentage of ethnic Latvians has dipped to only about 57.7%. Russians constitute about 29.6% of the population; Belarussians make up 4.1%; Ukrainians account for 2.7%; Poles for 2.5%; Lithuanians for 1.4%; and others 2%. Nearly half the Russians and Ukrainians lived in Riga, where Russians formed a majority of the population. All residents of pre-1940 Latvia and their descendants are citizens. Naturalization requires 16 years' residence and fluency in Latvian.

## 9 LANGUAGES

Latvian (also called Lettish), a Baltic language written in the Roman alphabet, is the official language. It is highly inflected, with seven noun cases and six verb declensions. The stress is always on the first syllable. There are three dialects. The macron is used for long vowels, and there is a hacek for "h." A cedilla adds the y sound. Education is now guaranteed in Latvian only. Instruction in higher education is given in Latvian only from the second year. Lithuanian and Russian are also spoken.

## 10 RELIGIONS

After declaring independence from the Soviet Union in 1991, freedom of religion and worship was restored for the first time since 1941. Christianity had arrived in Latvia in the 12th century, and the Reformation made Lutheranism the primary religious persuasion after 1530. Currently the three largest faiths are Catholicism, Lutheranism, and Orthodoxy.

In 2002, the Latvian Justice Ministry has registered more than 1,000 religious congregations, including 309 Lutheran, 251 Roman Catholic, 114 Orthodox, 89 Baptist, 67 Old Believer (a breakaway Orthodox sect dating from the 17th century), 46 Seventh-Day Adventist, 10 Jehovah's Witnesses, 10 Hare Krishna, 12 Methodists, 7 Jewish, 7 Muslim, 4 Buddhist, 3 Mormon, and over 100 others. Other minority groups that have been registered and openly practice include the Church of Jesus Christ of Latter-Day Saints (Mormons) and various evangelical Protestants, such as the Pentecostal Good News Church. According to church membership rolls submitted to the Justice Ministry, the Roman Catholic Church has about 500,000 members, the Lutheran Church has about 400,000 members, and the Orthodox Churches have about 300,000 members. The Old Believers claim about 70,000 members, 6,000 people are Baptist, 6,000 are Jewish, 4,000 are Seventh-Day Adventist, 2,000 are Jehovah's Witnesses, and another 2,000 are Mormon. Other groups have about 500 members or less. It is believed that a large portion of the population is atheist.

## 11 TRANSPORTATION

Railroads extend for 2,412 km (1,499 mi), linking port cities with Russia. More than 80% of railway use is for daily

commuting. In 2002, there were 59,178 km (36,773 mi) of highways, of which 22,843 km (14,194 mi) were paved. Maritime ports include Riga, Ventspils, and Liepāja. In 2002, the merchant fleet consisted of 6 ships with a total of 30,119 GRT. Ventspils is the terminus of the 750 km (466 mi) oil pipeline from Polotsk, Belarus.

In 2001, Latvia has an estimated 25 airports, 13 of which have paved runways. The principal airport at Riga has international air links to Helsinki, Stockholm, Copenhagen, and New York, as well as direct flights to Austria, Germany, Israel, Russia, and Belarus. In 2001, 305,100 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Germans, Poles, Swedes, and Russians competed for influence in what is now Latvia from the Middle Ages until the 18th century, when it was incorporated into the Russian Empire. During the 19th century, a Latvian nationalist movement arose which by the early 20th century sought independence. The political chaos in Europe following World War I provided the opportunity for Latvia to break away from Russia's control.

On 18 November 1918, the independent Republic of Latvia was proclaimed. Moscow recognized Latvian independence in the August 1920 Soviet-Latvian treaty, and the new republic joined the League of Nations in 1922. Latvia prospered economically during the 1920s, and began to export dairy and grain products to Europe. During the 1930s, as tensions in Europe escalated, the Soviet government allied itself with the UK and France, which in July 1939 granted the concession that Soviet troops could move into the Baltic States in case an indirect aggression was made by Germany. Sensing that an alliance between the UK, France, and the USSR would leave Germany politically and militarily surrounded, the Nazi government decided to reach its own agreement with the Soviet government in August 1939. A secret protocol to the 1939 Nazi-Soviet pact assigned Latvia to the Soviet sphere of influence.

Soviet forces invaded Latvia on 17 June 1940, and Latvia was incorporated into the USSR. Thousands of Latvia's military and law enforcement officials were executed; political and social leaders were imprisoned. Latvian civilians were deported en masse to Soviet camps in Siberia; 15,000 alone were expelled on the night of 14 June 1941. The Soviets, however, lost control of Latvia to the Germans in July 1941, shortly after Hitler launched his attack on the USSR. Soviet forces recaptured Latvia in 1944. During the Teheran Conference of November/December 1943 between US president Franklin D. Roosevelt and the Soviet leader Joseph Stalin, it was agreed that the USSR would maintain control of the Baltic States, and this agreement was confirmed at the Conference of Yalta in February 1945.

Following World War II, forced collectivization of agriculture began another round of deportations in 1949, bringing the total number of post-war deportees to more than 200,000. The Soviet policy of Russification sought to replace Latvian language and culture with those of Russia. Freedom of speech, press, and religion was denied. For most of the 50 years of Soviet rule, political dissent was strictly forbidden.

Soviet president Mikhail Gorbachev's policy of *glasnost* and *perestroika* allowed Latvians to voice their long-suppressed desire for national self-determination. In June 1987, an openly anti-Soviet demonstration took place in Riga. In 1988, political activists founded the Latvian National Independence Movement and the Latvian Popular Front (LPF). On 23 August 1989, Latvians, Lithuanians, and Estonians organized a massive demonstration of Baltic solidarity. The LPF united independence forces and gained a majority in the elections for the Latvian Supreme Council in the spring of 1990. On 4 May 1990 provisional independence and a period of transitional rule were proclaimed.



LOCATION: 57°0' N; 25°0' E. BOUNDARY LENGTHS: Total boundary lengths, 1,150 kilometers (715 miles); Belarus, 141 kilometers (88 miles); Estonia, 339 kilometers (211 miles); Lithuania, 453 kilometers (281 miles); Russia, 217 kilometers (135 miles).

On 21 August 1991—shortly after the failure of a coup against Gorbachev—Latvia proclaimed its full independence. The first post-independence elections for the new Saeima (parliament) were held on 5–6 June 1993. On 30 April 1994, the Latvian and Russian governments signed a series of accords calling for the withdrawal of nearly all Russian armed forces from Latvia by the end of that year. On 12 June 1995, Latvia, Estonia, and Lithuania signed accords with the EU that it was hoped would eventually lead to full membership. A second parliamentary election the same year resulted in a legislature that was strongly divided between pro-Western and pro-Russian contingents. At the end of 1995, Andris Šķeļe, a former government official and businessman, became prime minister, heading a broad-based coalition cabinet. Šķeļe, who retained his post until 1997, balanced the budget and sped up economic reform although his leadership style alienated many other politicians.

The Russian economic decline of 1998 decreased the market for Latvian goods and services, seriously hurting its economy and increasing unemployment. In October of the same year, Šķeļe's People's Party won a plurality of the vote in new parliamentary elections, but the former prime minister's personal unpopularity resulted in the formation of a minority government by a coalition

that opted to exclude him. Latvia elected its first female president in June 1999, when Vaira Vīķe-Freiberga, a Canadian psychology professor of Latvian birth known for promoting Latvian cultural interests internationally, was chosen as her homeland's new head of state. She was inaugurated on 8 July 1999. One of her first acts as president was to veto new legislation that would have required the use of the Latvian language in government and business communications, thus further disenfranchising Latvia's large Russian-speaking minority, whose rights and status remained a problematical issue for the country as the new century began. In May 2002, Latvia changed its election law to omit a clause requiring parliamentary candidates to be speakers of the Latvian language, a provision seen as discriminatory to Russian speakers. The change was seen to improve Latvia's chances for membership in the North Atlantic Treaty Organization.

In November 2002, NATO formally invited Latvia, along with six other countries, to become a member of the body in 2004. That December, Latvia also received an invitation from the European Union (EU) to join, with accession planned for 2004 as well. Latvia planned to hold a referendum on EU membership on 20 September 2003.

General elections were held on 5 October 2002, and a new party, the centrist New Era, topped the polls with 23.9% of the votes, taking 26 of the 100 seats in the Saeima. New Era is led by Einars Repse, the former head of the central bank, who managed the country's economy through difficult post-Soviet years; he oversaw the replacement of the currency, from the Russian ruble to the lat, an event that was seen as heralding Latvia's economic revival. Repse was named prime minister, heading a center-right coalition government formed by New Era, Latvia's First Party, the Alliance of Greens and Farmers, and the For Fatherland and Freedom Party. The For Human Rights in a United Latvia party came in second with 18.9% of the vote and 24 seats. Twenty parties competed for seats in parliament in the election. Repse, who campaigned for lower taxes, a pared-down government, and the elimination of corruption, launched a new office in 2003, an "Anti-Absurdity" bureau. Dedicated to help ordinary people fight "the arbitrariness of those in power, the laziness of civil servants, and the lack of order in national and local government," it is a sounding board for a variety of public complaints.

Both Repse and President Vike-Freiberga supported the 2003 US-led military campaign against Saddam Hussein's regime in Iraq. Vike-Freiberga emphasized the need to maintain the trans-Atlantic relationship guaranteeing Latvia's security, and the country's opposition to the rule of dictators who challenge the international community.

### 13 GOVERNMENT

The 1990 declaration of provisional independence reinstated the 1922 constitution. From 1990 to 1993, Latvia was in a state of transition and authority was held by the Supreme Council. The new Saeima (parliament) consists of a single chamber with 100 deputies. A party must receive at least 5% of the national vote to hold a seat in parliament. Deputies are elected to a term of four years by citizens over the age of 18.

The executive branch of government is made up of the president, prime minister, and the cabinet. The Saeima elects the president for a four-year term. Executive power lies with the prime minister, who heads the Council of Ministers (cabinet). In June 1999, the Saeima elected Vaira Vike-Freiberga to the presidency.

Only citizens of Latvia at the time of the 1940 Soviet invasion and their descendants were allowed to vote in the 1993 elections. This meant that an estimated 34% of the country's residents (primarily Russians) were ineligible to vote. On 22 July 1994 the Saeima amended a new citizenship law, eliminating the quota system that allowed only 2,000 resident aliens a year to become citizens. The new law accelerates the naturalization process for the several hundred thousand Russian-speakers living in Latvia.

### 14 POLITICAL PARTIES

The Latvian Popular Front, established in 1988 to unite pro-independence forces, split apart after independence was achieved, giving way to a number of new parties, many defined by their stance on the status of the country's Russian-speaking population. Following the October 1998 elections the 100 seats in the Saeima were distributed as follows: People's Party, 24; Latvian Way Union, 21; Fatherland and Freedom/Latvian National Conservative Party, 17; Popular Harmony Party, 16; Latvian Social Democratic Alliance, 14; and New Party, 8. There were also other political parties not represented in the Saeima.

Following the October 2002 parliamentary elections, New Era, a new party led by former central bank head Einars Repse, won the most seats in the Saeima (26), followed by the For Human Rights in a United Latvia Party with 24, the People's Party with 21, the Alliance of Greens and Farmers with 12, Latvia's First Party with 10, and the For Fatherland and Freedom Party with 7. Repse was named prime minister, leading a coalition of New Era,

Latvia's First Party, the Alliance of Greens and Farmers, and the For Fatherland and Freedom Party.

### 15 LOCAL GOVERNMENT

Latvia's local governmental structure is divided into two levels. On the first tier are cities, parishes (*pagasti*), and newly formed joint municipalities. In addition, there is district government. Citizens who live in the respective territories elect the decision-making bodies of city, parish or joint-municipal governments. These governments delegate representatives to the district governments (counties). The seven large municipalities in Latvia have dual status as city and regional governments. As of 2000, there were 473 parishes, 65 cities, 7 newly formed joint municipalities, 7 large municipalities, and 26 administrative counties.

### 16 JUDICIAL SYSTEM

A 1991 constitution, which supplements the reinstated 1922 constitution, provides for a number of basic rights and freedoms. The courts have been reorganized along democratic lines. Regional courts were added in 1995 to hear appeals of lower court decisions. There are now district courts, regional courts, a Supreme Court, and the Constitutional Court.

More serious criminal cases are heard before a panel consisting of a judge and two lay assessors. There is a provision for a 12-member jury in capital cases. The judiciary is independent, however, it suffers from a lack of personnel and training. In 1996, a seven-member Constitutional Court was established with power to hear cases at the request of the president, the cabinet, prosecutors, the Supreme Court, local government, or one-third of parliament members. The Constitutional Court may also rule on the constitutionality of legislation or its conformity with Latvia's international obligations.

### 17 ARMED FORCES

The Latvian armed forces total 5,500 active personnel with reserves numbering 14,050. The army of 4,300 is equipped with three main battle tanks. The air force of 270 operates 19 aircraft. The navy has 930 personnel including the 250-member coast guard. Paramilitary forces consist of a border guard numbering 3,200. Latvia assists in UN and peacekeeping operations in Bosnia and Yugoslavia. Defense expenditures in 2001 were \$87 million or about 1.2% of GDP.

### 18 INTERNATIONAL COOPERATION

Latvia was admitted to the UN on 17 September 1991. The country is a member of EBRD, ECE, FAO, IAEA, IBRD, the IMF, OSCE, UNCTAD, UNESCO, UPU, WHO, WIPO, and the WTO. Latvia was formally invited to join the EU and NATO in 2002, with accession to each body planned for 2004. It is not a member of the CIS.

### 19 ECONOMY

Latvia has a relatively well-developed infrastructure and a diversified industrial base, which accounts for about 26% of GDP. Agriculture constitutes approximately 5% of GDP and centers around the cultivation of potatoes, cereals, fodder, and other crops, as well as dairy farming. The largest sector of the economy is the service sector, with wholesale and retail trade, transportation, financial services, communications, and real estate management the most important industries.

Latvia's GDP fell about 30% in 1992 due to a steep decline in industrial exports to Russia. However, by 1994, GDP rose by 2%. A banking crisis caused by the collapse of Latvia's largest bank (as well as some smaller commercial banks) inhibited economic growth in 1995. Difficulties in revenue collection and inadequate control over governmental spending led to a high budget deficit. As a result, GDP fell by 1.6% in 1995. GDP

growth improved markedly during the mid- to late-1990s, but it slowed somewhat in 1999, due to the Russian financial crisis of the previous year. By 2001 it stood at 7.7%. It was forecast for 5.2% in 2003 and was expected to reach 6% in 2004. Compared to a 960% inflation rate in 1992, inflation was down to 26.3% in 1994, 16% in 1996, and 4.7% in 1998. Inflation was forecast to be 2.4% in 2004. Unemployment during the early 2000s remained stable between 7–8%.

Since independence was achieved in 1991, Latvia continued with its privatization program and market reforms in the hope of qualifying for EU accession. By mid-2003, 98% of former state-owned industries had been sold, and the private sector accounted for two-thirds of GDP. Latvia joined the WTO in 1999, and was formally invited to join the EU in December 2002, with accession planned for May 2004. Latvian governments in the early 2000s implemented strict monetary policies and liberal trade policies, attempted to keep budget deficits low, and tried to provide for a more competitive economic environment. Latvia attracted a large amount of foreign direct investment since 1991; Denmark was its largest investor. However, investors who shy away from Latvia often do so because of corruption, organized crime, excessive bureaucracy, and a need for regulatory reform.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Latvia's gross domestic product (GDP) was estimated at \$20 billion. The per capita GDP was estimated at \$8,300. The annual growth rate of GDP was estimated at 4.5%. The average inflation rate in 2002 was 2%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 5% of GDP, industry 26%, and services 70%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$61 million or about \$25 per capita and accounted for approximately 0.9% of GDP. Worker remittances in 2001 totaled \$95.70 million. Foreign aid receipts amounted to about \$45 per capita and accounted for approximately 1% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$1,714. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption declined at an annual rate of 3%. Approximately 30% of household consumption was spent on food, 16% on fuel, 6% on health care, and 23% on education. The richest 10% of the population accounted for approximately 25.9% of household consumption and the poorest 10% approximately 2.9%.

## 21 LABOR

The 2001 labor force was estimated at 1.1 million workers. Unemployment in that year was officially reported at 7.6%. Approximately 60% of those employed were in the service sector, with 25% in industry and the remaining 15% in agriculture.

Latvian workers have the legal right to form and join labor unions. As of 2002, about 30% of the labor force was unionized. Unions are generally nonpolitical, have the right to strike (with some limits), are free to affiliate internationally, can bargain collectively, and are mostly free of government interference in their negotiations with employers.

The minimum employment age is 15, and the mandatory maximum workweek is set at 40 hours. Latvian labor regulations also provide workers with four weeks of annual vacation and special assistance to working mothers with small children. Certain minimum standards of labor conditions are defined by

law, although they are not effectively enforced. The legal minimum wage was \$98 per month in 2002.

## 22 AGRICULTURE

As of 1998, out of a total land area of 6,205,000 hectares (15,333,000 acres), about 29% was crop land. Agriculture accounted for about 5% of GDP and engaged around 15% of the labor force in 2001. Agricultural output declined by an annual average of 7% during 1990–2000.

Privatization of agriculture progressed rapidly after 1991. By the beginning of 1993, over 50,000 private farms had been established, and many agricultural facilities were being privatized. Production of primary crops in 2000/01 (in thousands of tons) included wheat, 427.4; barley, 261.1; rye, 110.7; potatoes, 747.1; rapeseed, 10.0; and legumes, 3.9.

## 23 ANIMAL HUSBANDRY

About 800,000 ha (1,977,000 acres) of land are meadows and pastures, representing 12.8% of the total land area. In 2001, there were 367,000 head of cattle, 394,000 pigs, 29,000 sheep, 3,100,000 chickens, and 20,000 horses. In 2001, some 60,000 tons of meat were produced, over 90% of which was beef and pork. Milk and egg production in 2001 totaled 846,000 and 27,000 tons, respectively.

Before World War II (1939–45), Latvia was a prominent dairy producer; in the postwar period, the number of cattle, poultry, and pigs rose steeply. Milk production stabilized in 1995, after four years of decreases in dairy cattle and milk production.

## 24 FISHING

The total catch in 2000 was 136,403 tons, down from 416,197 tons in 1991. Nearly all the landings are from marine fishing. Principal species include sprat, herring, sardines, cod, and mackerel. Fish packing is an important industry in Latvia; in 2000, fisheries exports amounted to nearly \$33 million.

## 25 FORESTRY

Latvia's forests and woodlands covered 2.9 million ha (7 million acres), or approximately 47% of the total land area in 2000 (up from 24.7% in 1923). Before World War II (1939–45), the timber and paper industries accounted for 29% of employment; by 1990, the number had fallen to 9%. In 1939, the timber industry contributed 53.5% to total exports; in 1990, wood and paper exports accounted for 2.2% of total exports. The timber cut in 2000 was 14,488,000 cu m (511 million cu ft), with 12% used as fuel wood. Production amounts in 2000 included: sawn wood, 4,030,000 cu m (142 million cu ft); particleboard, 102,000 cu m (3.6 million cu ft); plywood, 156,000 cu m (5.5 million cu ft); and paper and paperboard, 16,000 tons. Exports of forest products amounted to \$625.9 million in 2000.

Jaako Poyry Consulting AB (Sweden), a subsidiary of Finland's Jaako Poyry Group, has been doing a preliminary study for a new pulp plant in Jekabpils, financed by the Latvian government and the Swedish International Development Authority. The new plant will have a capacity to produce 350,000 tons of bleached softwood per year, and will require an investment of up to \$1 billion.

## 26 MINING

Latvia was dependent on imports for raw materials. Limestone (for cement) and sand and gravel mines were spread throughout the country. Ceramic clays, dolomite, and gypsum also were produced. Peat (taken from 85 deposits, for fuel) covered approximately 10% of Latvia's territory, with the heaviest concentration in the eastern plains. Tonnage production figures for 2000 were: peat, 346,695, compared with 956,353 in 1999 and 171,700 in 1998; and sand and gravel, 440,914, compared with 787,317 in 1999 and 90,551 in 1997. Production figures for

cement, gypsum, and limestone were withheld in 1999 and 2000 to avoid disclosing proprietary data.

## 27 ENERGY AND POWER

The hydroelectric power stations on the Daugava River are Latvia's major source of electricity, but they do not produce enough to meet the country's power needs, especially in years when the reservoirs are low, when 30% to 40% of Latvia's power must be imported, mostly from Estonia and Lithuania. All three plants underwent modernization at the end of the 1990s. In addition, the Kegums hydropower plant, built in 1939, was renovated and reopened in 2001, having been made operable for another 40 years. During 2000, Latvia produced about 3.3 billion kWh of electricity, mostly from three hydroelectric plants at Plevinas, Riga, and Kegums (accounting for 67% of the total produced); power from a conventional thermal plant in Riga accounted for an additional 33%. In the same year, consumption of electricity was 5.16 billion kWh. Installed capacity in 2001 totaled 2.2 million kW.

Latvia imports nearly 100% of its required gas and petroleum products from Russia, Belarus, and Lithuania; in 2000, petroleum was consumed at a rate of 25,000 barrels per day and natural gas consumption totaled 1.3 billion cu m (46 billion cu ft). In 1998 the Western Pipeline System joint stock company was formed to increase transmission capacity between Belarus and Latvia, with an additional 360,000 barrels per day of pipeline capacity forecast for 2005. Latvia's territorial waters in the Black Sea are thought to contain as many as 300 million barrels of oil. In 2002 Latvia awarded five-year offshore exploration rights to a US-Norwegian joint venture.

## 28 INDUSTRY

Latvia's industrial base has centered mainly on heavy industries such as chemicals and petrochemicals, metal working, and machine building. Major manufactured items include railway carriages, buses, mopeds, washing machines, radios, electronics, and telephone systems. Since 1995, output of buses has fallen, but there has been an increase in the production of transport vehicles and passenger rail cars. Base chemical production has also declined slightly, as demand for household detergents and fibers has fallen. Other important industries include paper, petrochemicals, mechanical engineering, and communications. Prior to 1998, the food processing sector provided the largest portion of the country's manufacturing output. Following the 1998 economic crisis in Russia, that sector declined, as Latvia depended upon Russia for exports. As of 2002, however, food processing showed potential for growth. In 2001, industry accounted for 26% of GDP, and employed around 25% of the work force. Although some 50 enterprises are excluded from privatization (including ports, the railway company, and the postal service), only a few large state enterprises had not been privatized as of 2002, including the Latvian Shipping Company (Lasco), and the electricity utility company (Latvenergo). Ninety-eight percent of former state-owned enterprises had been sold as of 2002.

## 29 SCIENCE AND TECHNOLOGY

The Latvian Academy of Sciences has divisions of physical and technical sciences and of chemical and biological sciences.

Fifteen research institutes, most attached to the academy, conduct medical, technical, and scientific research. The University of Latvia (founded in 1919) has faculties of physics and mathematics, chemistry, and biology. The Riga Technical University (founded in 1990) has various engineering faculties. Both are in Riga, as are the Latvian Academy of Medicine (founded in 1951), the Riga Aviation University (founded in 1919), and the Stradin Museum of the History of Medicine. The Latvian University of Agriculture (founded in 1939) is located in

Jelgava, and the National Botanical Garden is situated in Salaspils. In 1987-97, science and engineering students accounted for 23% of university enrollment. In the same period, Latvia had 1,049 scientists and engineers and 351 technicians per million people engaged in research and development.

## 30 DOMESTIC TRADE

The traditional, small, privately owned farmer's markets, bakeries, and dairies are still prevalent throughout the country; however, large supermarkets are making their mark in larger cities. Latvia's center of domestic commerce is in Riga. One of the countries first malls was scheduled to open in 2003, with major investment from a Finnish department store chain. The most widely demanded domestic services include dressmaking and repair; house construction and repair; and automotive servicing. As of 2002, privatization of previously state-owned companies and industries was nearly complete.

Shops are generally open from 9 or 10 AM to 7 or 8 PM.

## 31 FOREIGN TRADE

Like most of the former Soviet republics, Latvia's trade was formerly dominated by the other Soviet states, but it has been relatively successful in achieving a wider range of trade partners.

Latvia's major commodity exports include wood (29%), iron and steel (6.3%), textile yarn (5.6%), furniture (4.5%), and fish (1%).

In 2000 Latvia's imports were distributed among the following categories:

Consumer goods	18.8%
Food	10.6%
Fuels	12.1%
Industrial supplies	30.1%
Machinery	19.7%
Transportation	8.3%
Other	0.4%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United Kingdom	325	85	240
Germany	321	499	-178
Sweden	203	216	-13
Lithuania	142	242	-100
Denmark	109	115	-6
Estonia	99	199	-100
Russia	78	370	-292
Netherlands	75	110	-35
Finland	36	276	-240
Poland	30	152	-122

## 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Latvia's exports was \$2.3 billion while imports totaled \$3.9 billion resulting in a trade deficit of \$1.6 billion.

The International Monetary Fund (IMF) reports that in 2001 Latvia had exports of goods totaling \$2.22 billion and imports of goods totaling \$3.57 billion. The services credit totaled \$1.19 billion and debit \$692 million. The following table summarizes Latvia's balance of payments as reported by the IMF for 2001 in millions of US dollars.



<b>Current Account</b>	-734
Balance on goods	-1,351
Balance on services	495
Balance on income	43
Current transfers	78
<b>Capital Account</b>	44
<b>Financial Account</b>	956
Direct investment abroad	-7
Direct investment in Latvia	177
Portfolio investment assets	-57
Portfolio investment liabilities	189
Other investment assets	-66
Other investment liabilities	719
<b>Net Errors and Omissions</b>	49
<b>Reserves and Related Items</b>	-314

### 33 BANKING AND SECURITIES

In 1991 banking matters were transferred to the Bank of Latvia from Soviet bank officials. Previously, Latvia had its branch of the Soviet State Bank (Gosbank). The central bank has the authority to issue Latvian rubles and regulate the commercial banking sector. There are many banks in Latvia, including the Baltic Transit Bank, Banka Atmoda, Latgale Stocj Commercial Bank, Latvian Credit Bank, Investment Bank of Latvia, and the Latvian Land Bank.

Latvia effectively exited the ruble zone on 20 July 1992. By early 1993 the Bank of Latvia introduced a national currency, the lat. The lat is now fully convertible for capital and current account purposes.

Latvia's banking sector has proved one of the country's most successful industries and also its most controversial. Riga has developed into an offshore financial center, offering numbered accounts and related services, and drawing in a substantial chunk of flight capital from other former Soviet republics. Owing to fairly liberal banking laws in the early 1990s, a large number of banks (54 as of May 1995) had been established. Subsequently, capital and other requirements have been progressively tightened. For existing banks, the minimum reserve requirements have been raised from Ls100,000 as of 1995 to Ls1.0 million by 31 March 1998. As of April 1995 all banks had to be audited by one of the recognized international accounting firms. The stricter capital regime has led to an inevitable attrition, with 11 banks losing their licenses between 1992 and 1995. Only some 15 banks made profits in 1994 and had adequate reserves. The audits also revealed huge losses at Baltija Bank (Latvia's largest institution, with some 200,000 private depositors), which had been incurred as a result of systematic fraud. Latvian banks suffered heavy losses in 1999 as a result of the Russian financial crisis.

In February 1997, the Bank of Latvia gave its approval to the proposed merger between the Latvian Savings Bank and the United Baltic Bank of Riga. As a result of the merger, the state now owns 75% of shares in the Latvian Savings Bank. The government's plans are to privatize the newly merged entity. Total assets of Latvia's 23 commercial banks were US \$5 billion as of June 2001. In recent years, Scandinavian banks have begun acquiring shares in Baltic banks. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$2.5 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 5.23%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 3.5%.

There is a stock exchange in Riga.

### 34 INSURANCE

In 1995, there were at least 16 insurance companies operating in Latvia. Some of these are fully or partly owned by foreign insurance firms (from Scandinavia, Germany, and the United States). There are several international funds that focus their activities in Latvia: the Baltic Growth Fund, the Baltic Fund, the Baltic Republics Fund, and the New Century Capital Partners. All insurers must be licensed by the Superintendent of Insurance. In Latvia, third-party automobile liability insurance is compulsory.

### 35 PUBLIC FINANCE

Latvia's structural transition out of the planned economy under communism has occurred more or less spontaneously since independence. As of 2002, the thriving private sector accounted for two-thirds of employment and GDP. Privatization is generally considered to be near-finished; although the government still owns a few key companies, most are in private hands, even the utilities, and the government is working to sell off its ownership of what remains in order to satisfy its commitments to the IMF.

The US Central Intelligence Agency (CIA) estimates that in 2002 Latvia's central government took in revenues of approximately \$2.4 billion and had expenditures of \$2.6 billion. Overall, the government registered a deficit of approximately \$200 million. External debt totaled \$3.4 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>2,400</b>
Tax revenue	86.2%	2,070
Capital revenue	<0.1%	1
Non-tax revenue	6.5%	156
Grants	7.2%	173
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>2,600</b>
General public services	5.5%	144
Defense	3.1%	81
Public order and safety	7.0%	181
Education	6.3%	163
Health	11.0%	287
Social security	40.8%	1,060
Housing and community amenities	1.2%	31
Recreation, cultural, and religious affairs	1.8%	48
Economic affairs and services	11.5%	300
Other expenditures	8.3%	216
Interest payments	3.5%	90

### 36 TAXATION

In 1995 Latvia replaced its profits tax with 25% business income tax (BIT). Under amendments in 2001, the BIT rate was reduced to 22% for 2002, and to 19% for 2003, and scheduled to fall to 15% for 2004. Before 2004, large-scale investments in significant projects and producers of high-technology products could obtain BIT reductions of, respectively, 40% and 30%. In 2004, all businesses will be subject to the 15% rate. Small enterprises qualify for a 20% reduction in 2002 and 2003, bringing their tax rates to 17.6% and 15.2%, respectively, for those years. The small-enterprises relief will also be eliminated in 2004. Branches of foreign companies are taxed at the same rate as Latvian companies, but are eligible for the same deductions and allowances. For companies operating in Latvia, capital gains are included in corporate income. There is a 2% withholding tax for nonresident companies on proceeds from the sale of Latvian real estate. The withholding rate on dividends paid to residents is the same as the BIT rate. The withholding tax on dividends paid to

nonresidents is 10%. Withholding taxes on various forms of capital income may be reduced or eliminated according to the terms of bilateral double tax prevention agreements. Shipping companies, cargo or passenger, engaged primarily in international commerce, may choose to be taxed according to a tonnage tax introduced in 2002. There are no local taxes.

As of 1995, Latvians pay personal income tax at a flat rate of 25% of taxable income. Taxable income is determined by lump sum deductions, and specific allowances for social security payments, donations to charity, hospitalization and medical expenses, and some school fees. There is also a property tax and a land tax.

The main indirect tax is Latvia's value-added tax (VAT) with a standard rate of 18% for most goods and services. A reduced rate of 9% is applied to medicines, media supplies, baby-care products, hotel accommodations, domestic hot water, heating and sewer products. A 0% VAT applies to exports. There are also excise taxes levied on luxury products at rates ranging from 10-100%, customs taxes, and stamp taxes.

### 37 CUSTOMS AND DUTIES

In October 1994, Latvia established its current tariff schedule and customs laws. A general duty of 0-55% is applied to most goods. Higher tariffs apply to automobiles, alcohol, tobacco, and cosmetics. Raw material, fuel, and grain are exempt. However, tariff rates depend on both the type of good imported and its origin. Goods from countries with most-favored nation (MFN) status receive lower rates, usually 15% (but up to 45% for agricultural products), while goods from non-MFN countries receive slightly higher rates, usually 20% (but up to 55% for agricultural products).

Latvia has free trade agreements with Sweden, Finland, Norway, Switzerland, and Kyrgyzstan. US products receive MFN status. Latvia has also formed a free trade area with Estonia and Lithuania. In January 1995, a free trade agreement went into effect with the European Union, which reduced tariffs on most industrial products to zero and set a schedule on tariff reductions over a course of five years for certain agricultural products. Latvia joined the World Trade Organization in February 1999.

### 38 FOREIGN INVESTMENT

In November 1991, a foreign investment act was passed permitting joint ventures in the form of either public or private limited companies. Businesses that are at least 30% foreign-owned receive a two-year tax holiday and a 50% tax abatement for the following two years.

At the end of 1995, foreign direct investment (FDI) in Latvia totaled \$521 million, based on registered statutory capital. The largest investors were Denmark (26.1%), Russia (19.4%), the United States (13.5%), Germany (6.4%), the United Kingdom (5.2%), and the Netherlands (4.2%). Finland and Sweden were also significant investors. Industry accounted for only 17% of all foreign investment and there were approximately 5,200 firms with a foreign capital share.

FDI inflow into Latvia reached \$521 million in 1997, averaging \$400 million a year 1996 to 2000, but fell sharply in the global economic downturn of 2001 to less than \$201 million. From 1995 to 2001 Latvia stock of FDI nearly quadrupled, reaching \$2.3 billion in 2001. In the period 1988 to 1990, Latvia's share of world FDI inflows was almost five times its share of world GDP, but for the period 1998 to 2000, Latvia's share of FDI inflows was only 60% greater than its share of world GDP.

The leading sources of FDI from 1996 to 2001 were the United States (13%), Germany (11%), and Denmark (11%). The primary destinations of foreign investment inflow were trade (22%), finance (16%), and business services, especially real estate (16%). The largest foreign affiliate is the telecommunications company

Lattelekom SA of Finland. The largest foreign bank invested is Hansabanka SA of Estonia.

### 39 ECONOMIC DEVELOPMENT

The government began introducing economic reforms in 1990 to effect the transition to a market-driven economy. Individual and family-owned businesses, cooperatives, and privately and publicly held companies are now permitted. The privatization process was simplified with a 1994 law that created the Privatization Agency (PA) and the State Property Fund. Distribution of privatization vouchers was completed by March 1995, with certificates valued at Ls2.8 billion distributed to 2.2 million Latvians.

The privatization program focuses on international tenders and public offerings of shares. By mid-1994, 450 state enterprises had been transferred for privatization. The first international tender of 45 enterprises came in November 1994, followed by 80 more in 1995. Large-scale privatization began in 1996 and continued into the beginning of the 21st century, when privatization was almost complete (with the exception of large state utilities).

In 2001, Latvia negotiated a 20-month, \$44-million Stand-By Arrangement with the International Monetary Fund (IMF). Real GDP growth was strong in 2001-02, led by investment and consumption. Inflation was low during those years. In 2003, per capita GDP stood around 50% above its level in 1995. Latvia's economy in 2003 was regarded as one of the best of the 10 countries slated for EU admission in 2004. The government was taking steps toward achieving a balanced budget by reducing government spending in 2003.

### 40 SOCIAL DEVELOPMENT

Social insurance provides benefits for old age, disability, and survivorship pensions for employees and self-employed persons. Pensions are funded by contributions from employees and employers in most sectors. The government funds programs to provide for active military personnel, individuals caring for infants, and spouses of diplomatic staff. Sickness and maternity benefits are provided to employed persons, while medical benefits are provided to all permanent residents. A universal program of family allowances exists, as well as workers' compensation and unemployment programs.

Employment discrimination based on gender is legally banned, although women are barred from certain occupations considered dangerous. In practice, women face unequal treatment in terms of both pay and hiring, including discrimination stemming from the cost of legally mandated childbirth benefits if a woman is hired. Sexual harassment is common in the workplace although prohibited by law. Domestic violence is pervasive. There are no shelters for abused or battered women, and few resources exist for victims of sexual assault.

Latvia's main human rights problem in recent years stems from the large number of minorities who were not granted citizenship after independence. These noncitizens, mainly ethnic Russians, do not have clear travel, property, and residency rights. Instances of excessive use of force by security forces were still reported, and prison conditions remained poor.

### 41 HEALTH

Primary care is provided at large urban health centers, hospital and walk-in emergency facilities, individual and group private practices, rural clinics staffed by midwives and physicians' assistants (which numbered 355 in 1999), and workplace clinics run by large private employers and the military. As of 1999, total health care expenditure was estimated at 6.7% of GDP. As of 1999, there were an estimated 2.8 physicians and 10.3 hospital beds per 1,000 people. In the same year, Latvia had 151 hospitals,

of which 31 were located in Riga (including all specialized hospitals). Hospital beds totaled 21,592.

As of 2002, the crude birth rate and overall mortality rate were estimated at 8.3 and 14.7 per 1,000 people respectively. Life expectancy in 2000 was 70 years and the infant mortality rate was 10 per 1,000 live births. The total fertility rate in 2000 was 1.2 per woman during childbearing years. In 1999, immunization rates for one-year-olds were as follows: diphtheria, pertussis, and tetanus, 95%; and measles, 97%. Measles, neonatal tetanus and polio had been almost completely eradicated by 1994–95.

Cardiovascular disease is a major cause of mortality in Latvia, with a rate of nearly 400 per 1,000 people over age 65. There were 23,329 deaths due to cardiovascular disease in 1994. About 67% of men and 12% of women smoked in 1993. Among teenagers aged 15, 15% smoked every day in 1993–1994. As of 2002, the number of people living with HIV/AIDS was estimated at 1,792. HIV prevalence was 0.11 per 100 adults.

## 42 HOUSING

In the 1990s 165,000 families (one out of five) were registered for new housing. Approximately 200,000 people lived in the 8% of existing housing stock that was in standard condition. But the government has made some progress in reforms for the housing sector. In 1993, 54% of housing was owned by state and municipalities. In 1999 the majority of property (70%) was privately owned. The government anticipates that by the end of the privatization process about 80% of housing will be private property, while municipalities will maintain only 20% of the housing as low-cost rental or social houses.

Since 1996, the government has signed several agreements with international organizations for funds to improve housing projects. In 2000, the Housing Crediting Program was initiated to promote a new mortgage system.

## 43 EDUCATION

The modern Latvian educational system is based on the reforms introduced in 1991. Compulsory education lasts for nine years beginning at the age of seven. Primary education lasts four years, and is followed by eight years of secondary education in general schools, specialized high schools, and trade schools. In 1997, there were 146,653 students in 1,074 primary schools, with 10,833 teachers. In the same year, secondary schools enrolled 239,318 students and employed 29,852 teachers. The pupil-teacher ratio at the primary level was 15 to 1 in 1999. In the same year, 93% of primary-school-age children were enrolled in school, while 84% of those eligible attended secondary school.

Entrance examinations are a prerequisite for admission into universities. Higher education is offered by both private and public institutions. The state offers free higher education in some areas of specialized study. Latvia has two major universities: the University of Latvia and the Riga Technical University. Higher education is also offered in various other academies. In 1997, there were 56,187 students enrolled in institutions of higher education; teaching staff totaled 4,486. Illiteracy in Latvia is very low. For the year 2000, adult illiteracy was estimated at 0.3% (males, 0.2%; females, 0.4%). As of 1999, public expenditure on education was estimated at 6.8% of GDP.

## 44 LIBRARIES AND MUSEUMS

In 1940, the libraries of Latvia were nationalized and placed under state control. For the next 50 years the library system was poorly maintained. As of 2000, those libraries that remain open are overcrowded and in poor physical condition. In 1997, the country counted 998 public libraries housing 14.9 million volumes. In the 1990s, the Latvian government authorized the construction of a new National Library to be designed by the American architect G. Birkerts. The National Library in Riga holds 2.1 million volumes as it awaits its new home. The Latvian

Academic Library in Riga holds 3.1 million volumes and the University of Latvia holds 1.7 million.

The larger museums are located in Riga, including the State Museum of Fine Arts, the History Museum of Latvia, and the Museum of Foreign Art. In 1990, Bauska Castle was converted into an historic museum. The Bauska Art Museum holds over 8,000 works of art by Russian and Western European artists. With the end of the Soviet era, a number of new museums devoted to Latvian culture and history opened in the 1990s, including museums of architecture, photography, telecommunications, Jewish life in Latvia, and a museum chronicling 50 years of Soviet occupation.

## 45 MEDIA

International communications links are via leased connection to the Moscow international gateway switch and the Finnish cellular network. In 2000, there were 734,693 main line telephones and 401,263 mobile cellular phones. At the end of that year, there were about 19,000 people on a waiting list to receive a phone line, with the wait being about three years. The Committee for Television and Radio controls broadcasting. Domestic and international programming in Latvian, Russian, Swedish, English, and German is broadcast by Latvian Radio. In 1998, there were 8 AM and 56 FM stations. Latvian State Television broadcasts on two channels, and there are several independent television stations with daily broadcasts. Cable and satellite services are available, and foreign broadcasts can also be seen. In 1995, there were 44 television stations. In 2000, there were about 695 radios and 789 television sets for every 1,000 people. About 77 of every 1,000 people subscribed to cable television. The same year, there were about 140 personal computers in use for every 1,000 people. In 2001, there were 41 Internet service providers serving 310,000 users.

Latvia publishes many newspapers, periodicals, and books, in both Latvian and Russian. The most widely read newspapers (with 2002 circulations) are *Diena* (*The Day*, 110,000), *Sovietskaya Latvija* (*Soviet Latvia*, 71,300), *SM Segodna* (a Russian language daily, 65,000), and *Riga Bals* (*The Voice*, 56,800). Foreign language newspapers the weekly *Baltic Times* in English.

The constitution provides for free speech and a free press, and the government is said to respect these rights in practice. A 1991 Press Law prohibits censorship of the press or other mass media.

## 46 ORGANIZATIONS

Important economic organizations in Latvia include the Latvian Chamber of Commerce, an organization that promotes trade and commerce with its Baltic neighbors, Europe, and The Russian Federation. There are five business and trade organizations including: the Latvia International Commerce Center, Latvian Small Business Association, and the World Latvian Businessmen's Association. The largest trade union in Latvia is the umbrella organization of the Association of Free Trade Unions, founded in 1990.

The Latvian Academy of Sciences promotes public interest and education for all branches of science. Some medical fields have professional associations. There are also several environmental protection and preservation organizations.

National youth organizations include the Student Council of the University of Latvia, United Nations Student Association of Latvia, YMCA-YWCA of Latvia, and the Scout and Guide Central Organization of Latvia. National women's organizations include the Women's National League of Latvia and the Latvian Association of University Women.

## 47 TOURISM, TRAVEL, AND RECREATION

With a population of around one million, Riga is the major tourism center of the Baltic states. Its historic architecture has

undergone extensive restoration in the past 25 years. Latvia's hotel industry is still underdeveloped but growing; joint ventures have modernized existing hotels in Riga to create Western-style accommodations. Tennis, horseback riding, fishing, hunting, sailing, water sports, and winter sports are available to visitors, as well as a ski marathon in February, the Sport Festival of Riga in May, and the International Riga Marathon in July.

All visitors need passports and visas, except for nationals of the UK, Hungary, Poland and Denmark, who are exempt from visa requirements.

In 2000, Latvia had 1,914,088 visitor arrivals and tourism receipts totaled \$131 million. There were 11,890 beds available in hotels and other accommodations.

According to 2001 US government estimates, the daily cost of staying in Riga was \$207 per day.

#### 48 FAMOUS LATVIANS

Guntis Ulmanis has been president of Latvia since July 1993, and was reelected in 1996. Turis Alumanns was Latvia's first poet. He started a school of poetry that produced the poets Krisjanis Barons (1823–1923) and Atis Kronvalds in the 19th century. Romantic literature in the 20th century was symbolized by Janis Rainis's *Fire and Night*.

#### 49 DEPENDENCIES

Latvia has no territories or colonies.

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# LIECHTENSTEIN

Principality of Liechtenstein  
*Fürstentum Liechtenstein*

**CAPITAL:** Vaduz

**FLAG:** The national flag is divided into two horizontal rectangles, blue above red. On the blue rectangle, near the hoist, is the princely crown in gold.

**ANTHEM:** *Oben am jungen Rhein (On the Banks of the Young Rhine).*

**MONETARY UNIT:** The Swiss franc (SwFr) of 100 centimes, or rappen, has been in use since February 1921. There are coins of 1, 5, 10, 20, and 50 centimes and 1, 2, and 5 francs, and notes of 10, 20, 50, 100, 500, and 1,000 francs. SwFr1 = \$0.7633 (or \$1 = SwFr1.31) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Epiphany, 6 January; Candlemas, 2 February; St. Joseph's Day, 19 March; Labor Day, 1 May; Assumption, 15 August; Nativity of Our Lady, 8 September; All Saints' Day, 1 November; Immaculate Conception, 8 December; Christmas, 25 December; St. Stephen's Day, 26 December. Movable religious holidays include Good Friday, Easter Monday, Ascension, Whitmonday, and Corpus Christi.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Liechtenstein, roughly triangular in shape, is a landlocked country situated in the Rhine River Valley. The fourth-smallest country in Europe, it is bordered by the Austrian province of Vorarlberg to the N and E, the Swiss canton of Graubünden to the S, and the Rhine River and the Swiss canton of St. Gallen to the W, with a total boundary length of 76 km (47 mi).

The principality has an area of 160 sq km (62 sq mi) and extends 24.5 km (15.2 mi) N-S and 9.4 km (5.8 mi) E-W. Comparatively, the area occupied by Liechtenstein is about 0.9 times the size of Washington, D.C.

Liechtenstein's capital city, Vaduz, is located in the western part of the country.

## <sup>2</sup>TOPOGRAPHY

Liechtenstein is divided into a comparatively narrow area of level land bordering the right bank of the Rhine River and an upland and mountainous region occupying the remainder of the country; the level land occupies about two-fifths of the total surface area. The greatest elevation, Grauspitz (2,599 m/8,527 ft), is in the south, in a spur of the Rhaetian Alps.

## <sup>3</sup>CLIMATE

Climatic conditions in Liechtenstein are less severe than might be expected from its elevated terrain and inland situation; the mitigating factor is a warm south wind called the Föhn. The annual lowland temperature varies between -4.5°C (24°F) in January and 19.9°C (68°F) in July. Late frost and prolonged dry periods are rare. Average annual precipitation is 105 cm (41 in).

## <sup>4</sup>FLORA AND FAUNA

The natural plant and animal life of Liechtenstein displays a considerable variety because of the marked differences in altitude. A number of orchid species are able to grow because of the warmth carried by the Föhn. In the higher mountain reaches are such alpine plants as gentian, alpine rose, and edelweiss. Common trees include the red beech, sycamore, maple, alder,

larch, and various conifers. Indigenous mammals include the deer, fox, badger, and chamois. Birds, including ravens and eagles, number about 120 species.

## <sup>5</sup>ENVIRONMENT

The Nature Conservation Act, adopted in 1933, was the nation's first major piece of environmental legislation; the Water Conservation Act dates from 1957, and air pollution laws were passed in 1973 and 1974. All wastewater is purified before being discharged into the Rhine. The great horned owl is now rare, and the European otter has become extinct. Liechtenstein is a party to international agreements on ozone layer protection, hazardous wastes, endangered species, and other environmental concerns.

## <sup>6</sup>POPULATION

The population of Liechtenstein in 2003 was estimated by the United Nations at 33,000, which placed it as number 187 in population among the 193 nations of the world. In that year approximately 11% of the population was over 65 years of age, with another 19% of the population under 15 years of age. There were 95 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.85%, with the projected population for the year 2015 at 36,000. The population density in 2002 was 212 per sq km (550 per sq mi).

The population is most heavily concentrated in the Rhine Valley, in which the two largest communities, Vaduz and Schaan, are located. It was estimated by the Population Reference Bureau that 23% of the population lived in urban areas in 2001. The capital city, Vaduz, had a population of 7,000 in that year. According to the United Nations, the urban population growth rate for 2000–2005 was 3.6%.

## <sup>7</sup>MIGRATION

There were 12,000 foreign residents in Liechtenstein in 2000, comprising approximately one-third of the total population. Moreover, about 6,885 Austrians and Swiss commute to Liechtenstein every day. Several hundred Italian, Greek, and

Spanish workers have migrated to the principality on a semi-permanent basis. In 1998 and 1999, Liechtenstein accepted a high number of Kosovo Albanian asylum-seekers, granting them temporary protection. The number of asylum-seekers and people under temporary protection, totaling around 31,000, comprised nearly 2% of the overall population of Liechtenstein in 1999. The net migration rate in 1999 was 5.9 migrants per 1,000 population. The government views the migration levels as satisfactory.

## **8 ETHNIC GROUPS**

The indigenous population, accounting for 87.5% of the 1998 total, is described as being chiefly of Alemannic stock, descendants of the German-speaking tribes that settled between the Main and Danube rivers. Italian, Turkish, and various other groups account for the remaining 12.5%.

## **9 LANGUAGES**

German is the official language. The population speaks an Alemannic dialect.

## **10 RELIGIONS**

The state religion is Roman Catholicism, to which about 77% of the population adheres; however, absolute freedom of worship prevails. According to a 2000 report, 0.07% of the population are Protestants; and 0.04% are Muslims. The Eastern Orthodox Church has about 242 members. Buddhists, Jehovah's Witnesses, Anglicans, Jews, Baha'is and New Apostolics each have less than 60 members. About 3,500 people were undecided as to religious affiliation.

## **11 TRANSPORTATION**

The line of the Arlberg express (Paris to Vienna) passes through Liechtenstein at Schaan-Vaduz, extending for 18.5 km (11.5 mi), but few international trains stop. The main center for reaching Liechtenstein is Buchs, Switzerland, about 8 km (5 mi) from Vaduz.

Postal buses are the chief means of public transportation both within the country and to Austria and Switzerland. A tunnel, 740 m (2,428 ft) in length, connects the Samina River Valley with the Rhine River Valley.

In 2002, there were some 250 km (155 mi) of paved roadways. A major highway runs through the principality, linking Austria and Switzerland.

The nearest airport is in Zürich, Switzerland.

## **12 HISTORY**

The territory now occupied by the Principality of Liechtenstein first acquired a political identity with the formation of the subcountry of Lower Rhaetia after the death of Charlemagne in 814. The County of Vaduz was formally established in 1342 and became a direct dependency of the Holy Roman Empire in 1396. The area (to which, in 1434, was added the Lordship of Schellenberg, in the north) was ruled in turn by various families, such as the counts of Montfort, von Brandis, van Sulz, and von Hohenems.

During the Thirty Years' War (1618–48), the area was invaded first by Austrian troops and then, in 1647, by the Swedes. After the von Hohenems line encountered financial difficulty, Prince Johann Adam of Liechtenstein purchased from them first Schellenberg (1699) and then Vaduz (1712). The Liechtenstein family thus added to its vast holdings in Austria and adjoining territories.

The Principality of Liechtenstein as such was created on 23 January 1719 by act of Holy Roman Emperor Charles VI, who made it a direct fief of the crown and confirmed the rule of Prince Anton-Florian, Johann Adam's successor, under the title of Prince von und zu Liechtenstein.

During the Napoleonic wars, Liechtenstein was invaded by both the French and the Russians. Following the Treaty of Pressburg (1805), Liechtenstein joined the Confederation of the Rhine, which made the principality a sovereign state. In 1815, following the downfall of Napoleon, Liechtenstein joined the newly formed Germanic Confederation.

With Prussia's victory over Austria in the Seven Weeks' War (1866), the Confederation was dissolved and the constitutional ties of Liechtenstein to other German states came to an end. In the war, Liechtenstein had furnished Austria-Hungary with 80 soldiers; two years later, the principality disbanded its military force for all time.

From 1852, when the first treaty establishing a customs union was signed, until the end of World War I, Liechtenstein was closely tied economically to Austria. After the war, the collapse of the Austrian currency and economy inclined the principality to seek economic partnership with its other neighbor, Switzerland. A treaty concluded with Switzerland in 1923 provided for a customs union and the use of Swiss currency.

Liechtenstein (like Switzerland) remained neutral in World War II, as it had in World War I. After Germany was defeated in 1945, Nazi sympathizers in Liechtenstein who had supported incorporation of the principality into Hitler's Third Reich were prosecuted and sentenced. The postwar decades have been marked by political stability and outstanding economic growth.

Prince Franz Josef II, who succeeded his granduncle, Franz I, in 1938, was the first reigning monarch actually to reside in Liechtenstein. On 26 August 1984, Franz Josef II handed over executive authority to his eldest son and heir, Crown Prince Hans-Adam. Hans-Adam II has been ruling prince since 13 November 1989, after Franz Josef II died.

Liechtenstein has sought further integration into the world community. The country was admitted to the UN in September 1991. In Europe, Liechtenstein joined EFTA in 1991 and became a member of the European Economic Area (EEA) in 1995.

Disagreements between Prince Hans-Adam II and parliament arose in the latter half of 1999. In September, the prince's assertion that he had the right to dissolve the government at his discretion raised tensions to the point where Hans-Adam threatened to go into exile in Austria. In October, the European Court of Human Rights ruled on a complaint filed by Dr. Herbert Wille, a senior judge whom the prince had refused to re-appoint because of Wille's assertion that the country's Supreme Court rather than its monarch should be the ultimate authority on constitutional issues. The court ruled that in depriving Wille of his judicial position because of his political views, the prince had violated the judge's freedom of speech. Wille was awarded 10,000 Swiss francs in compensation as well as payment of his legal costs.

Sixty-four percent of Liechtenstein's voters approved a new constitution for Liechtenstein in a referendum held in March 2003; Hans-Adam II will be granted near-absolute powers. Turnout was large, with 14,800 of Liechtenstein's 17,000 electorate casting votes. The prince now has the right to dissolve government, control a committee appointing judges, and has veto power over legislation. The constitution also gives the people the power to call a referendum and abolish the monarchy. As a result of the changes, which many observers deemed undemocratic, Prince Hans-Adam II rescinded his pledge to leave the country. He also stated he would begin to confer power on his son and heir apparent, Alois.

Liechtenstein ranks as one of the world's most prosperous countries with one of the world's highest living standards while its people pay very low taxes. In 1999, the royal family itself was ranked as the wealthiest in all of Europe while Prince Hans-Adam II personally was ranked as Europe's third-wealthiest monarch. However, in 2000 Liechtenstein ranked among the top 15 countries named by an international task force investigating



LOCATION: 47°3' to 47°14' N; 9°29' to 9°38' E. BOUNDARY LENGTHS: Austria, 34.9 kilometers (21.7 miles); Switzerland, 41.1 kilometers (25.5 miles).

countries whose banking laws make money laundering possible. Liechtenstein took steps in 2001 to make its banking system more transparent.

### 13 GOVERNMENT

Liechtenstein is a constitutional monarchy ruled by the hereditary princes of the house of Liechtenstein. The monarchy is hereditary in the male line. The constitution of 5 October 1921, as amended in 1987, provides for a unicameral parliament (Landtag) of 25 members elected for four years. Election is by universal suffrage at age 18 and is on the basis of proportional representation. Women gained the right to vote in 1984. A new voting system that went into effect as of the 1974 national elections provides nine representatives for the Upper Land district and six representatives for the Lower Land district.

A new constitution was approved in March 2003, that grants the ruling prince extensive powers, including the right to veto legislation and to control the appointment of judges, in addition to the rights guaranteed to him under the former constitution.

The prince can call and dismiss the Landtag. On parliamentary recommendation, he appoints the prime minister, who must be of Liechtenstein birth, and the deputy prime minister for four-year terms. It is the regular practice for the prime minister to be of the majority party and the deputy prime minister to be selected from the opposition. The Landtag appoints four councillors for four-year terms to assist in administration. Any group of 1,000 persons or any three communes may propose legislation. Bills passed by the Landtag may be submitted to popular referendum. A law is valid when it receives majority approval by the Landtag and the prince's signed concurrence.

### 14 POLITICAL PARTIES

The two principal parties are the Fatherland Union (Vaterländische Union—VU) and the Progressive Citizens' Party (Fortschrittliche Bürgerpartei—FBP). In the general elections of 1997, the VU, which has held a majority since 1978, won 13 seats in the Landtag and the FBP 10. Other parties included the Free List (Freie Liste—FL), two seats; and the Liechtenstein Non-party List (Überparteiliche Liste Liechtensteins—ULL), which was not represented.

The general elections in 1993 resulted in a coalition government headed by Mario Frick of the Fatherland Union (VU). Frick was reelected as prime minister by the Landtag in 1997. Although the VU remains the largest single party, Liechtenstein had a coalition government from 1938 until 1997.

In the 2001 elections, the FBP won 49.9% of the vote and 13 seats in the Landtag, to the VU's 41.1% and 11 seats. The Free List (Greens) won 8.8% of the vote and 1 seat. Otmar Hasler was named prime minister. It was the first time since 1978 that the FBP held a majority in parliament.

### 15 LOCAL GOVERNMENT

The 11 communes (Gemeinden) are fully independent administrative bodies within the laws of the principality. They levy their own taxes. Liechtenstein is divided into two districts—the Upper Land (Vaduz) and the Lower Land (Schellenberg)—for purposes of national elections.

### 16 JUDICIAL SYSTEM

The principality has its own civil and penal codes, although in certain instances courts composed of Liechtenstein, Swiss, and Austrian judges have jurisdiction over Liechtenstein cases. Courts that function under sole Liechtenstein jurisdiction are the County Court (Landgericht), presided over by one judge, which decides minor civil cases and summary criminal offenses; the juvenile court; and the Schöffengericht, a court for misdemeanors. The remaining courts, with five judges each, have a mixed composition for purposes of impartiality: three Liechtenstein lay judges, one Swiss judge, and one Austrian judge. The criminal court (Kriminalgericht) is for major crimes. Other courts of mixed jurisdiction are the assize court (Schöffengericht-Vergehen), the superior court (Obergericht), and a supreme court (Oberster Gerichtshof). An administrative court of appeal hears appeals from government actions, and the Constitutional Court determines the constitutionality of laws. In June 1986, Liechtenstein adopted a new penal code abolishing the death penalty.

The constitution provides for public trials and judicial appeal. The judiciary is separate from the executive and legislative branches. As of 2003, the prince will have the ultimate right to control the appointment of the country's judges.

## 17 ARMED FORCES

Since 1868, no military forces have been maintained in Liechtenstein, but there is obligatory military service for able-bodied men up to 60 years of age in case of emergency.

## 18 INTERNATIONAL COOPERATION

Liechtenstein belongs to the Council of Europe, EBRD, ECE, EFTA, IAEA, ICRM, ITU, OSE, UNCTAD, UPU, WIPO, and the WTO. It became a member of the UN in 1990 and is a signatory of the Law of the Sea treaty. The principality joined the European Economic Area in 1995. Liechtenstein now has diplomatic relations with nearly 50 countries.

## 19 ECONOMY

Despite its small size and limited national resources, Liechtenstein is one of the richest countries in the world on a per capita GDP basis. It has developed since the 1940s from a mainly agricultural to an industrialized country and a prosperous center of trade and tourism. Factories produce a wide range of high-technology manufactures, especially precision instruments. Liechtenstein is also a world leader in specialized dental products. Industrial products are manufactured almost exclusively for export.

Special economic advantages enjoyed by very small nations of Europe (e.g., the issuance of new postage stamps, free exchange of currencies, and liberal laws that provide incentives for the establishment of bank deposits and of nominal foreign business headquarters) also play a part in this prosperity.

In 1999 Liechtenstein became the subject of an international investigation into money laundering. Although Liechtenstein subsequently drafted legislation to combat money laundering, the Finance Action Task Force placed the principality on the international "black list" for failing to cooperate with international authorities on the matter.

About 35% of the people employed in Liechtenstein commute from Switzerland and Austria. Liechtenstein remains a well-known tax haven, and a location for holding companies to establish nominal offices; these provide for 30% of state revenues. The country has no central bank and does not print its own currency, but uses the Swiss franc instead. Liechtenstein is engaged in harmonizing its economic policies with those of the EU.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 1998 Liechtenstein's gross domestic product (GDP) was estimated at \$730 million. The per capita GDP was estimated at \$23,000. The average inflation rate in 2001 was 1%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange.

## 21 LABOR

In 2002, there were 28,783 persons in the labor force, including 13,847 foreigners, of whom 8,231 commuted to work from Switzerland and Austria. Liechtenstein's workforce is highly skilled, but there are not enough native-born workers to meet industry's needs. The composition of the labor force was as follows: industry, commerce, and construction, 48%; services, 51%; and agriculture and forestry, 1%. Unemployment in 1999 was 1.3%.

All workers, including foreigners, are entitled to form and join unions. There is one trade union that represents about 13% of the workforce. Strikes are permitted but are not generally used. Most collective bargaining agreements are adapted from ones signed between Swiss workers and employers.

There is no minimum wage, although wages are among the highest in the world. The legal workweek is 45 hours in the industrial sector and 48 hours in non-industrial firms. The actual workweek is usually 40 to 43 hours. Occupational safety and health standards are set by the government and are rigorously enforced. The minimum working age is 16, but exceptions to this may be made for children wishing to leave school at the age of 14.

## 22 AGRICULTURE

Liechtenstein has only 912 ha (2,254 acres) of arable land. Until the end of World War II (1939–45), the economy was primarily focused on agriculture. In the Rhine Valley, the most productive area, the chief vegetables are corn, potatoes, and garden produce. On gradual mountain slopes, a variety of grapes and orchard fruits are grown.

## 23 ANIMAL HUSBANDRY

Alpine pasture, particularly well suited for cattle grazing, covers over 35% of the total land area.

In 2001, cattle numbered about 6,000; hogs, 3,000; and sheep, 3,000.

## 24 FISHING

There is no commercial fishing in Liechtenstein. Rivers and brooks are stocked for sport fishing.

## 25 FORESTRY

The forests of Liechtenstein not only supply wood but also have an important function in preventing erosion, landslides, and floods. Forests cover about 7,000 ha (17,200 acres).

More than 90% of all forestland is publicly owned; of the 474 ha (1,171 acres) of private forest, 158 ha (390 acres) are the property of the prince. The most common trees are spruce, fir, beech, and pine.

## 26 MINING

There was no mining of commercial importance.

## 27 ENERGY AND POWER

The first Liechtenstein power station went into operation in 1927; its capacity is now 900 kW. Another station was constructed in 1947–49; it has an installed capacity of 9,600 kW. Total installed capacity in 1989 was 23,000 kW; production amounted to 150 million kWh in 1995. Since domestic production no longer meets local requirements, supplementary energy is imported from Switzerland, especially in winter. In 1995, 92.5% of Liechtenstein's energy requirement was imported from abroad. Consumption of electricity in 2001 was 313.5 million kWh. Imports of electricity in the same year totaled 232.8 million kWh.

## 28 INDUSTRY

The industry of Liechtenstein, limited by shortages of raw materials, is primarily devoted to small-scale production of precision manufactures. The output includes optical lenses, dental products, high-vacuum pumps, heating equipment, electron microscopes, electronic measuring and control devices, steel bolts, knitting machines, and textiles. Pharmaceuticals, electronics, ceramics, and metal manufacturing are also important. The largest industrial companies in Liechtenstein are Hilti (construction services), Balzers (electro-optical coatings), Hilcona (frozen foods), and Ivoclar-Vivadent (dental medical technology). Liechtenstein's industry is completely geared to exports; industrial exports rose from SwFr196.7 million in 1967 to SwFr3.0 billion in 1996. Around 48% of the labor force is engaged in industry, trade, and construction.



## 29 SCIENCE AND TECHNOLOGY

Like Swiss industry, manufacturing in Liechtenstein entails a high degree of precision and technological sophistication. Balzers, the country's second largest employer, is known for its leading role in providing equipment and thin film technology for the CD-ROM industry. Liechtenstein itself has no educational institutions offering advanced scientific training. The Liechtensteinische Gesellschaft für Umweltschutz, founded in 1973, is concerned with environmental protection.

## 30 DOMESTIC TRADE

Liechtenstein and Switzerland are essentially linked in one common economic zone. The domestic economy is largely based on industry and financial services. The primary product industries are electronics, metal manufacturing, and medical precision instruments. About 48% of the work force are foreigners, with 29% commuting from Switzerland and Austria. Vaduz and Schaan, the chief commercial centers, have some specialty shops, but the smaller communities have only general stores. Regular business hours are generally from 8 AM to 6:30 PM. Normal banking hours are from 8:15 AM to noon and from 1:30 PM to 4 or 5 PM, Monday–Friday.

## 31 FOREIGN TRADE

Goods to and from Liechtenstein pass freely across the frontier with Switzerland, with which Liechtenstein maintains a customs union. Exports in the mid-1990s averaged SwFr2,021,800 per year, as compared with SwFr893,385,000 in 1980. Exports in 1994 were valued at \$2.6 billion. Some 40% of exports in 1996 went to EEA countries.

Important exports include precision instruments, ceramics, textiles, and pharmaceuticals. Liechtenstein imports mainly raw materials, light machinery, and processed foods. In the mid-1990s, imports averaged SwFr1,074,600,000 per year.

## 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 1996 the purchasing power parity of Liechtenstein's exports was \$2.47 billion while imports totaled \$917.3 million resulting in a trade surplus of \$1.5527 billion.

## 33 BANKING AND SECURITIES

Although there is a national bank, the duties of the central bank are performed by the Swiss National Bank, a consequence of the currency union with Switzerland. Liechtenstein's banks form an important part of the economy, and they have experienced significant growth in the 1990s. An estimated 4% of the work force was employed by the banking sector in the 1990s.

The National Bank of Liechtenstein (Liechtensteinische Landesbank), founded in 1861, is the state bank of issue; in addition, it deals in real estate mortgages and ordinary banking operations. Liechtenstein Global Trust (LGT), the country's biggest financial institution (owned by the royal family), and the Private Trust Bank Corp., founded in 1956, play an important role in the finance and credit spheres of Liechtenstein's economy. Banking is linked with the Swiss banking system, as is securities trading. In 1945, Liechtenstein's banks had a combined balance sheet of SwFr38 million; in 2003, it was SwFr120 billion, an astonishing SwFr3.6 million for every person in the country. Net income from Liechtenstein's banks totaled SwFr232.5 million in 1996, and contributed over 12% to the country's national income in terms of taxes and dividends paid.

Because of Liechtenstein's strict bank secrecy, several thousand foreign businesses are nominally headquartered there. The secrecy laws are, however, waived in the case of criminal intent. There are at present no restrictions on foreign investors' access to financing in Liechtenstein. New laws to combat insider trading

and money laundering have recently tightened fiduciary regulations.

## 34 INSURANCE

Insurance activities in Liechtenstein are variously conducted by the government (old age and survivors' insurance), by private companies under government regulation (e.g., life, accident, health, and fire), and by farmers' associations. In 1996, a new insurance law came into force, focusing on attracting insurance business from abroad, as Liechtenstein is now a member of the European Economic Area.

## 35 PUBLIC FINANCE

Liechtenstein's economy has experienced more extensive development and industrialization in the past 40 years than any other Western country. In that period, it went from a predominantly agricultural economy to a highly advanced industry-driven economy.

The US Central Intelligence Agency (CIA) estimates that in 1998 Liechtenstein's central government took in revenues of approximately \$424.2 million and had expenditures of \$414.1 million. Overall, the government registered a surplus of approximately \$10.1 million. External debt totaled \$0.

## 36 TAXATION

The main taxes are levied on personal income, business income, and principal. Personal income tax rates are determined by taxable income and taxable wealth. The basic tax rate is 1.2% on income and 0.06% on wealth. However, the communes levy a communal tax of 200%, which brings the combined tax rates to 17.82% on income and 0.89% on wealth. In addition, a surcharge is levied on the basic tax on income and wealth at rates ranging from 5% to 395%. Thus, the totals of basic tax, communal tax, and surcharges results in the national tax due. Corporations pay income tax at a rate of 7.5% to 15%.

Other levies include a capital gains tax on the sale of real estate; death, estate, and gift duties; a motor vehicle registration tax; and a value-added tax on goods and services within Liechtenstein and Switzerland at a standard rate of 6.5%.

Firms domiciled in Liechtenstein but conducting no gainful pursuits there benefit from extremely favorable tax arrangements, a prime factor in the establishment of nominal business headquarters. Foreign clients pay 1% per year in capital taxes; and only 0.5% for foundations with taxable assets exceeding SwFr10 million. The communes may impose property and income taxes.

Since joining the European Economic Area in 1995, Liechtenstein has not entered into any agreements covering double taxation, except for Austria.

## 37 CUSTOMS AND DUTIES

There have been no customs between Switzerland and Liechtenstein since a customs treaty was ratified in 1924. On the Austrian border, Switzerland collects the customs at its own rates. Liechtenstein's part of the duties is calculated on the basis of population and the principality pays an annual indemnification to Switzerland for customs and administration.

## 38 FOREIGN INVESTMENT

The Prince of Liechtenstein Foundation has established a number of ventures abroad, mainly in the field of investment management and counseling.

Several thousand foreign companies have established offices in Liechtenstein because taxes are very low, banking operates in strict secrecy, and the principality is politically stable. Some industrial establishments are owned and managed by Swiss interests.

### 39 ECONOMIC DEVELOPMENT

The government generally encourages the increasing diversification of industry and the development of tourism. The principality's low taxes and highly secret banking system are attractive to foreign corporations wanting to safeguard patents and trademarks and to individuals who want to protect their wealth for the future. Thousands of corporations have established nominal headquarters in Liechtenstein. In recent years, the principality is accused of serving as a center for money laundering. In 2002, the International Monetary Fund (IMF) conducted an Offshore Financial Center (OFC) Assessment of Liechtenstein, to evaluate the regulation and monitoring of the country's financial center. The IMF approved of Liechtenstein's efforts to fight money laundering and the financing of international terrorism, and of its planned establishment of an independent supervisory authority.

Research and development is a driving force of Liechtenstein's economic success; in 2000, total research and development spending rose over 20% to around \$149 million.

Liechtenstein is a member of the European Economic Area (EEA).

### 40 SOCIAL DEVELOPMENT

There is a universal pension system covering all residents, employed persons, and self-employed individuals. It is funded primarily by the government along with contributions from employees and employers. It provides benefits for old age, disability, and survivorship. A social insurance system and universal medical coverage provides sickness and maternity benefits. All residents and persons employed in Liechtenstein are entitled to medical coverage. Work injury and unemployment insurance are provided to all employed persons. There is a family allowance based on number of children and a birth grant provided to all residents and non-resident workers.

Equality for women is protected by law, and several groups monitor and promote women's rights. An equal opportunity law addresses workplace discrimination and sexual harassment. Domestic violence laws have been enacted and are actively implemented. The government ratified the UN Convention of the Elimination of all Forms of Discrimination against Women, and the UN Convention on the Rights of the Child. Human rights are fully respected in Liechtenstein.

### 41 HEALTH

The government regulates the practice of medicine and subsidiary occupations, such as nursing and pharmacy. Life expectancy in 1999 was about 78 years. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 11.2 and 6.8 per 1,000 people. The infant mortality rate was an estimated 4.9 per 1,000 births.

In the mid-1990s, Liechtenstein had an estimated 2.5 physicians per 1,000 people, with a nurse to doctor ratio of 2:1. There were approximately 8.3 hospital beds per 1,000 people. A program of preventive medicine, introduced in 1976, provides regular examinations for children up to the age of 10.

### 42 HOUSING

Houses in the countryside are similar to those found in the mountainous areas of Austria and Switzerland. Liechtenstein does not have a significant housing problem. About 82% of all dwellings have central heating, 89% have a kitchen, 91% have a private bath, 95% have hot water, and 88% have a common sewage system.

### 43 EDUCATION

Education is based on Roman Catholic principles and is under government supervision. The present school system, introduced

in 1929, underwent major reforms in the early 1970s. In 1974, the compulsory primary school attendance period was lowered from eight years to five, beginning at age seven. Kindergarten, offered to children ages five to seven, is optional, followed by five compulsory years of primary school. Secondary education is divided into three tracks: Oberschule; Realschule, which offers vocational and, in some cases, university preparatory education; and Gymnasium, which provides an eight-year program to prepare students for a university education, with concentrations in either the classics and humanities or economics and mathematics.

Liechtenstein also has an evening technical school, a music school, and a children's pedagogic-welfare day school. While there are no universities in Liechtenstein, students continue their education at universities abroad, especially in Germany, Austria, and Switzerland.

### 44 LIBRARIES AND MUSEUMS

The National Library (founded in 1961) serves as the public, academic, and national library. It is located in Vaduz and has over 200,000 volumes. There are three specialized libraries maintained by private institutes, and a small library attached to a state music school.

The National Museum, located in Vaduz, includes collections from the Prince and the State, containing an important Rubens collection.

The Prince Liechtenstein Art Gallery, founded in 1620 and located in Vaduz, is an important cultural institution in Liechtenstein. The museum is housed upstairs in the tourist information office. Also in the capital are a postage museum and a state historical museum. A ski museum opened in Vaduz in 1994, and there are also museums in Schaan, Schellenberg, and Triesenberg.

### 45 MEDIA

The post office (including telegraph and telephone services) is administered by Switzerland. Liechtenstein, however, issues its own postage stamps. The number of telephones in 1997 was about 20,000. The Swiss dial system extends to the principality. Direct-dialing is used throughout the country and includes international service. Telegraph service is efficient. As of 2001, there were one state and one private television station broadcast, along with a private radio station. Residents also receive radio and television broadcasts from neighboring countries. In 1997 there were 21,000 radios and 12,000 television sets in the country. In 2000, there were 44 Internet service providers serving users in both Liechtenstein and Switzerland.

Two daily newspapers are published. The *Liechtensteiner Volksblatt* reflects the political outlook of the Progressive Citizen's Party. It had a circulation of about 8,200 in 2002. *The Liechtensteiner Vaterland* reflects the views of the Fatherland Union. It had a circulation of about 9,580 in the same year. *Liechtensteiner Wochenzeitung*, a weekly, had a circulation of 14,000.

The media is said to enjoy a large degree of autonomy and freedom from interference, owing to an independent press, an effective judiciary, and a democratic political system.

### 46 ORGANIZATIONS

Organizations include the Chamber of Industry and Commerce, the Historical Society of the Principality of Liechtenstein, three concert societies, and various other cultural organizations. Kiwanis and Lion's clubs are active in the country. Charitable institutions include the Liechtenstein Caritas Society (founded in 1924) and the Liechtenstein Red Cross Society (1945). Youth organizations include the Scouts and Guides of Liechtenstein.

#### 47 TOURISM, TRAVEL, AND RECREATION

Attractions include mountaineering and nature walks, the castles of Vaduz and Gutenberg (overlooking Balzers), the ruins of several fortresses, and the numerous local brass bands and choirs, as well as the operetta societies of Vaduz and Balzers. The most popular sports are swimming, tennis, hiking, and skiing. The ski resort of Malbun has 10 hotels and 6 ski lifts.

Modern, comfortable buses offer regular service throughout Liechtenstein, connecting with Austria and Switzerland. In Vaduz, the lower country, and the Alpine regions there are hotels and guest houses.

The government actively encourages the tourism industry. In 2000, about 62,000 visitors came to the country. The country had 1,184 hotel beds. In 2002, the US Department of State estimated daily expenses to be about \$179.

#### 48 FAMOUS LIECHTENSTEINERS

Joseph Rheinberger (1839–1901), an organist and composer who lived in Munich, was the teacher of many famous composers. Prince John II (r. 1858–1929) was admired for donating some SwFr 75 million to the struggling country after World War I. Prince Franz Josef II (1906–89), whose rule began in 1938, was

Europe's longest-reigning sovereign. Liechtenstein's current monarch is Prince Hans Adam II (b. 1945), who first was given executive power in 1984 and assumed control in 1989. His brother, Prince Philipp (b. 1947), serves as chairman of Liechtenstein Global Trust, the country's main banking institution. Prince Alois (b. 1968) is the heir apparent.

In 1980, Hanni Wenzel (b. 1956) and her brother Andreas (b. 1958) won the World Cup international skiing championships.

#### 49 DEPENDENCIES

Liechtenstein has no territories or colonies.

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# LITHUANIA

Republic of Lithuania  
*Lietuvos Respublika*

**CAPITAL:** Vilnius

**FLAG:** Three equal horizontal bands of yellow (top), green, and red.

**ANTHEM:** Tautika Giesme (The National Song).

**MONETARY UNIT:** The Lithuanian lita of 100 cents has replaced the transitional system of coupons (talonas) which had been in force since October 1992, when the Soviet ruble was demonetized. There are coins of 1, 2, 5, 10, 20, and 50 cents and 1, 2, and 5 litas, and notes of 10, 20, 50, and 100 litas; litas 1 = \$0.3336 (or \$1 = litas 2.997) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** New Year's Day, 1 January; Day of the Restoration of the Lithuanian State, 16 February; Good Friday (movable); Anniversary of the Coronation of Grand Duke Mindaugas of Lithuania, 6 July; National Day of Hope and Mourning, 1 November; Christmas, 25–26 December.

**TIME:** 2 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Lithuania is located in eastern Europe, bordering the Baltic Sea, between Latvia and Poland. Comparatively, it is slightly larger than the state of West Virginia with a total area of 65,200 sq km (25,174 sq mi). Lithuania shares boundaries with Latvia on the N and NE, Belarus on the S and SE, Poland on the SW, Russia-Kaliningrad Oblast on the W, and the Baltic Sea on the NW. Lithuania's land boundary length totals 1,273 km (791 mi). Its coastline is 99 km (62 mi).

Lithuania's capital city, Vilnius, is located in the southeastern part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Lithuania features primarily lowland terrain with many scattered small lakes and fertile soil. Moderate highlands lie to the east and south, with a few hilly regions in the west.

## <sup>3</sup>CLIMATE

Lithuania's climate is transitional between maritime and continental. Yearly, the mean temperature is 6.1°C (43°F). The mean temperature in July is 17.1°C (63°F). Rainfall averages from 49 cm (24 in) to 85 cm (33 in) depending on location.

## <sup>4</sup>FLORA AND FAUNA

The country is located in the mixed forest zone. The country's vegetation is a mixture of coniferous, broadleaf woodlands, arctic, and steppe species. There are 68 species of mammals, 203 breeding bird species, 7 reptile species, 13 amphibian species, and about 60 fish species. The country has rabbit, fox, red deer, roe, elk, wild boar, badger, raccoon dog, wolf, lynx, and gallinaceous birds. Roach, ruff, bream, and perch can be found in Lithuania's lakes and streams.

## <sup>5</sup>ENVIRONMENT

Lithuania's environmental problems include air pollution, water pollution, and the threat of nuclear contamination. The cement

industry produces 299,000 metric tons of airborne pollutants per year. In 1996, industrial carbon dioxide emissions totaled 13.8 million metric tons per year. A UN report on Lithuania stated that air pollution had damaged about 68.4% of the nation's forests.

Water pollution results from uncontrolled dumping by industries and the lack of adequate sewage treatment facilities. In the 1990s, 42% of the nation's treatment facilities were inoperative.

After the nuclear accident at Chernobyl that contaminated much of Lithuania with excessive radiation, Lithuanians are concerned about nuclear energy development, especially the use of nuclear power generated by plants of the same kind as the one at Chernobyl.

Lithuania's pollution problems have also affected the nation's wildlife. Although nearly 10% of Lithuania's total land area was protected as of 2001, many of the country's original animal and plant species are now extinct. Five mammal species and four species of birds are threatened. Threatened species include the European bison, marsh snail, and Russian desman.

## <sup>6</sup>POPULATION

The population of Lithuania in 2003 was estimated by the United Nations at 3,444,000, which placed it as number 125 in population among the 193 nations of the world. In that year approximately 14% of the population was over 65 years of age, with another 19% of the population under 15 years of age. There were 87 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.58%, with the projected population for the year 2015 at 3,222,000. The population density in 2002 was 53 per sq km (138 per sq mi).

It was estimated by the Population Reference Bureau that 68% of the population lived in urban areas in 2001. The capital city, Vilnius, had a population of 579,000 in that year. Other large cities include Kaunas and Klaipeda. According to the United Nations, the urban population growth rate for 2000–2005 was -0.1%.

## 7 MIGRATION

Many Lithuanians unable to accept Soviet occupation in 1940 were deported to Siberia. However, Russian immigration to Lithuania was never as heavy as to the other Baltic republics. Lithuania has been used as a transit country to western Europe for many years. Government policy was to return asylum seekers to their homelands or detain them indefinitely. However, the Lithuanian refugee law was passed 27 July 1997, and asylum procedure entered into force. Since the enforcement of this law, 471 people had applied for asylum in Lithuania as of 1999. Of these, 43 had been recognized as refugees and were being integrated. In 1999, the net migration rate was -1.58 migrants per 1,000 population. The total number of migrants living in Lithuania in 2000 was 339,000. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

In 1998, Lithuanians formed 80.6% of the population. Russians constituted 8.7%; Poles made up 7%, Belarusians accounted for 1.6%; and other groups for the remaining 2.1%. Naturalization requires 10 years of residence and competence in Lithuanian.

## 9 LANGUAGES

Lithuanian, the official language, is noted for its purity in retaining ancient Indo-European language forms and has some remarkable similarities with Sanskrit. It is highly inflected, with seven noun cases. Like Latvian, it has rising, falling, and short intonations. Its Roman alphabet has many special symbols, including the hacek, dot, and cedilla. The majority speak Lithuanian for their first tongue. Polish and Russian are also widely used. Minorities have the right to official use of their languages where they form a substantial part of the population.

## 10 RELIGIONS

The country witnessed extensive suppression of religious activities during the Soviet period. Although official statistics are not available, Lithuania is primarily Roman Catholic. A 2001 census indicated that about 79% of the population is nominally Roman Catholic. The next largest denomination, the Orthodox Church, has only about 141,000 members, about 0.04% of the population. The Old Believers (an Orthodox sect) have about 27,000 members. About 19,500 people are Lutherans, 7,000 are Evangelical Reformed, 4,000 are Jewish, 2,700 are Sunni Muslim, and about 300 are Greek Catholic. About 9.4% of the population claim no specific religious affiliation.

Lithuania is one of a few countries to have an active community of Karaites. The faith is a branch of Judaism, with tenets based exclusively on a literal interpretation of the Hebrew scriptures. The Karaites have two centers of worship in the country, in Vilnius and Trakia, with a total of about 250 members. The Karaites are considered an ethnic community as well. They speak a Turkic-based language and use the Hebrew alphabet.

In May 1999, after some initial controversy, the Minister of Justice also registered the Hasidic Chabad Lubavich community as a traditional religious organization. Denominations considered “non-traditional” by the government include Jehovah’s Witnesses, Baptists, Seventh-Day Adventists, and Pentecostals, as well as about 184 other religious organizations.

## 11 TRANSPORTATION

Railways extend 1,998 km (1,241 mi) across Lithuania, providing rail access to the Baltic Sea for Vilnius, Kaunas, and other major urban areas in 2002. About 44,000 km (27,341 mi) of the 35,500 km (22,059 mi) of highways are hard-surfaced. In 2002 there were 600 km (373 mi) of perennial navigable waterways. Sea routes link Klaipeda on the Baltic Sea with 200

foreign ports; Kaunas is the principal inland port. Also in 2002, the merchant fleet consisted of 47 ships (of 1,000 GRT or over) totaling 279,743 GRT, including 25 cargo vessels, 8 combination bulks, 2 oil tankers, 1 railcar carrier, 6 refrigerated cargo, 2 roll-on/roll-off cargo, and 3 short-sea passenger. A railway sea ferry from Klaipeda to Mukran (Germany) began in 1986. There are 72 airports, 9 with paved runways in 2001. Principal airports include Palanga, Vilnius, and Kaunas International at Kaunas, and one commercial airport in Siauliai. Two international airlines serve Lithuania: Lithuanian Airlines and Lietuva. In 2001, 304,100 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

From the 14th to the 18th centuries, the Grand Duchy of Lithuania was linked to the Kingdom of Poland. What is now Lithuania, though, was annexed to the Russian Empire in the final partition of the Polish-Lithuanian state in 1795. During the 19th century, a Lithuanian nationalist movement arose.

On 16 February 1918, Lithuania proclaimed its independence. The new Bolshevik government in Moscow attempted to establish Soviet power in Lithuania, but failed. In July 1920, Moscow recognized Lithuanian independence. A secret protocol to the 1939 Nazi-Soviet pact assigned Lithuania to the Soviet sphere of influence.

Wishing to avoid conflict, the Lithuanian government allowed Soviet forces to be stationed on its territory. The local government was forced to resign in June 1940. Rigged elections led to a parliament, which proclaimed Lithuania to be a Soviet Socialist Republic in July 1940. Moscow lost control of Lithuania soon after Germany attacked the USSR in June 1941. Soviet forces recaptured Lithuania in 1944.

Soviet president Mikhail Gorbachev’s policy of *glasnost* and *perestroika* allowed Lithuanians to voice their long-suppressed desire for national self-determination. Free elections to the Lithuanian Supreme Soviet on 24 February 1990 resulted in Sajudis—an anti-Communist Lithuanian reform movement—becoming the most influential force in the legislature at the expense of the Communists. On 11 March 1990, Lithuanian independence was proclaimed, but this was not generally recognized until after the abortive August 1991 coup attempt in Moscow.

Since independence, Lithuania has been preoccupied with reforming its economic and political institutions. Privatization has transformed its economy to a market-oriented one. Politically, a thriving press and open democracy have been established. Former communists won the first post-independence elections in 1992, but conservatives took back the parliament in 1996 elections, in response to growing allegations of government corruption. Presidential elections the following year were surrounded by controversy over the eligibility for office of candidate Valdas Adamkus, who had lived in the United States for over 30 years following World War II. Adamkus was elected in runoff elections in January 1998.

Parliamentary elections were held on 8 October 2000, resulting in a win for former president Algirdas Brazauskas’ Social Democratic Coalition, which won 31.1% of the vote, taking 51 of 141 seats in the Seimas. However, a grouping of four smaller parties formed a new centrist government with Rolandas Paksas as prime minister. Presidential elections were held on 22 December 2002, and Adamkus took the lead in the first round of voting, with 35.3% of the vote, to 19.7% for Paksas. Paksas campaigned vigorously for the run-off vote held on 5 January 2003, winning 54.9% to 45.1% for Adamkus.

Given the history of Russian domination of Lithuania, it is understandable that Lithuania’s primary foreign policy objective has been to improve relations with the West and especially to gain entrance into NATO and the EU. In November 2002, Lithuania



LOCATION: 56°0' N; 24°0' E. BOUNDARY LENGTHS: Total boundary lengths, 1,372 kilometers (854 miles); Latvia, 453 kilometers (282 miles); Belarus, 502 kilometers (312 miles); Poland, 91 kilometers (57 miles); Russia, 227 kilometers (141 miles); Baltic Sea coastline, 99 kilometers (62 miles).

was formally invited to join NATO, with accession planned for 2004. In December 2002, the EU extended an official invitation to Lithuania to join the body by 2004 as well. Lithuania supported the 2003 US-led military campaign to disarm and remove Saddam Hussein's regime in Iraq.

### 13 GOVERNMENT

On 25 October 1992, Lithuanian voters approved a new constitution, which called for a 141-member unicameral legislature (Seimas) and a popularly elected president. The constitution requires whoever is elected as president to sever his or her formal party ties. All who were permanent residents of Lithuania in November 1989 have been granted the opportunity to become citizens, irrespective of their ethnic origins. Members

of the Seimas are elected to four-year terms, and the president is directly elected to a five-year term. The prime minister is appointed by the president; all other ministers are nominated by the prime minister and appointed by the president. All ministerial appointments must be approved by the Seimas. Suffrage is universal at age 18.

### 14 POLITICAL PARTIES

The majority party in the Seimas since the 1996 parliamentary elections was the conservative Homeland Union Party, or TS, led by Vytautas Landsbergis, which won 70 out of 141 seats. Overall, 28 parties competed for the 141 parliamentary seats in elections held on 20 October 1996 (first round) and 10 November 1996 (second round). The other party of the right

wing, the Christian Democrats, also did well, winning 16 seats, and entered into a coalition government with the TS and the Lithuanian Center Union, which won 13 seats. The Democratic Labor Party (composed mostly of ex-communists), which had been the majority party in the previous parliament, was humiliated, winning only 12 seats. Other parties with parliamentary representation included the Lithuanian Social Democratic Party and the Lithuanian Democratic Party.

The Homeland Union-Conservative coalition suffered in the October 2000 parliamentary elections, capturing only nine seats. Former president Algirdas Brazauskas led four leftist parties in a Social Democratic Coalition, winning 51 of the 141 seats in parliament. However, a coalition ("New Policy") composed of the ideologically diverse Liberal Union (33 seats), New Alliance (28), Center Union (2), Modern Christian Democratic Union (3), and two smaller parties formed a new government, bypassing the Social Democratic Coalition. Rolandas Paksas was named prime minister.

## 15 LOCAL GOVERNMENT

For administrative purposes, Lithuania's 10 provinces are divided into 44 regions; as well, there are urban districts, towns, and rural administrative units called *apylinkes*. Each level of local government has its own elected officials.

## 16 JUDICIAL SYSTEM

After Lithuania broke away from the Soviet Union, its legal system was transformed from that of the old Soviet regime to a democratic model. The system now consists of a Constitutional Court and a Supreme Court, whose members are elected by the Seimas, as well as district and local courts, whose judges are appointed by the president. A Court of Appeals hears appellate cases from the district courts.

A new civil and criminal procedure code and a court reform law were enacted in 1995. The government has reviewed its laws to bring them into accord with the European Convention on Human Rights.

The judiciary is independent.

## 17 ARMED FORCES

In 2002 the active armed forces of Lithuania totaled 13,510, supported by 309,200 reserves. The army numbered 8,100, the navy 650, and the air force 1,000 with no combat aircraft. The paramilitary consisted of 5,000 border guards, a Riflemen Union of 8,850 and a coast guard of 540. Lithuania participated in peacekeeping operations in the region. The defense budget for 2001 was \$231 million or 1.9% of GDP.

## 18 INTERNATIONAL COOPERATION

Lithuania was admitted to the UN on 17 September 1991. The country is a member of OSCE, EBRD, FAO, IAEA, IBRD, ILO, IMF, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, WMO, and WTO. Lithuania has especially close ties with the countries of the European Union, and was formally invited to join that body in December 2002, with accession slated for 2004. It is not a member of the CIS. Lithuania was invited to join NATO in November 2002, with accession planned for 2004.

## 19 ECONOMY

Until 1940, Lithuania's economy was primarily agricultural, mainly in the form of dairy farms and livestock raising. The main industries are machine building and metalworking, although light industry and food processing are also well developed. Like the other Baltic states, Lithuania has few natural resources, primarily peat and amber.

Due to modernization that occurred during Soviet dominance, Lithuania built up a large, if somewhat inefficient, industrial sector that in 2001 accounted for 32% of the country's economy.

The service sector is 61% while agriculture accounts for about 13% of the economy.

In 1992, Lithuania's GDP fell 21.6%. In that year, the government adopted an IMF-directed program aimed at privatizing the economy, controlling inflation, eliminating price controls, and lowering the budget deficit. In June 1993 Lithuania's convertible currency, the litas, was introduced, setting off another round of inflation, while GDP continued to decline, by 16.2% in 1993 and 9.8% in 1994. In 1994, the government entered into a three-year arrangement with the IMF under its Extended Fund Facility (EFF) aimed primarily at bringing inflation under control. 1995 was the first year of positive growth (3.3%) since independence, although unemployment remained high, at 16.4% in 1995. Inflation, which was still in double digits in 1996 (23%), fell to single digits (5.1%) by 1998 and unemployment fell to 6.4%. The economy registered real growth until 1999—4.7% in 1996, 7.3% in 1997 and 5.1% in 1998—but then was overtaken by the effects of the August 1998 financial crisis in Russia, still one of Lithuania's largest trading partners. Real GDP declined 3.9% in 1999 as unemployment jumped to 8.4%. Inflation remained under control, however, at 0.3%. Growth returned in 2000, with real GDP up 3.3%, but unemployment continued to soar, peaking at 13.2% in March 2001. Growth in 2001 was 5.9%, above expectations, and in the first half of 2002, growth averaged about 5.6%. In February 2002, the government repegged the litas from the US dollar to the euro, at a rate of 3.4528 litas per euro. Inflation was about 1% for the year and by December 2002, unemployment had moderated to 10.9%. About 80% of Lithuanian's enterprises have been privatized since independence, and by 2002 over 25% of its trade was with countries outside the old Soviet bloc. Lithuania acceded to the WTO 31 May 2001 and expects to be admitted to the EU in 2004.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Lithuania's gross domestic product (GDP) was estimated at \$29.2 billion. The per capita GDP was estimated at \$8,400. The annual growth rate of GDP was estimated at 4.5%. The average inflation rate in 2002 was 0.8%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 8% of GDP, industry 31%, and services 61%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$2 million or about \$1 per capita. Worker remittances in 2001 totaled \$3.05 million. Foreign aid receipts amounted to about \$37 per capita and accounted for approximately 1% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$1,721. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 4%. Approximately 33% of household consumption was spent on food, 13% on fuel, 4% on health care, and 27% on education. The richest 10% of the population accounted for approximately 25.6% of household consumption and the poorest 10% approximately 3.1%.

## 21 LABOR

In 2001, the economically active population was estimated at 1.5 million. As of 1997, services accounted for 50% of the workforce, with industry employing 30% and agriculture the

remaining 20%. The unemployment rate was approximately 12.5% that year.

The constitution recognizes the right for workers to form and join trade unions. Approximately 13% of employees are union members. There are four major trade union organizations. The law also provides the right of workers to strike, except those in essential services in the public sector. Collective bargaining is permitted but only utilized on a limited basis.

The legal minimum wage is periodically adjusted by the government for inflation, but these adjustments lag behind the inflation rate. The minimum wage was \$107.50 per month as of 2002, but it is not universally enforced. The legal minimum age for employment is 16 years without parental consent, and 14 years with written parental consent. The 40-hour workweek is standard for most workers. The law stipulates occupational health and safety standards, but these are not effectively enforced and many industrial plants are unsafe.

## 22 AGRICULTURE

Out of Lithuania's 6,480,000 ha (16,012,000 acres) of land area, 46% consisted of cropland and permanent pastures. Privatization in agriculture rapidly advanced after 1991; over 70,000 private farms had been established by late 1996. However, due to a lack of financial resources and inefficiency in the crediting system, many of these new farmers are only operating at subsistence levels. Agricultural output decreased by a yearly average of 1.1% during 1990–2000.

Crops of importance in 2001 included potatoes, 1,054,000 tons; barley, 776,200 tons; wheat, 1,076,300 tons; rye, 231,100 tons; legumes, 52,200 tons, and rapeseed, 64,800 tons.

## 23 ANIMAL HUSBANDRY

About 7% of the total land area consists of permanent pastureland. Livestock in 2001 included 1,748,000 head of cattle, 868,000 pigs, 5,576,000 chickens, 11,500 sheep, and 68,000 horses. Meat production in 2001 totaled 188,000 tons, of which 34% was beef, 48% was pork, 16% was chicken, and 2% other meat. Milk production exceeded 1.7 million tons in 2001, when 41,500 tons of eggs were produced.

## 24 FISHING

Klaipėda's fishing port is the center of the fishing industry. In 2000, the total catch was 78,987 tons, down from 470,251 tons in 1991. Principal species in 2000 included sprat, cod, and herring. Fisheries exports were valued at \$33.7 million in 2000. There are two aquacultural facilities operating in Lithuania, consisting primarily of carp.

## 25 FORESTRY

Forests covered about 32% of Lithuania in 2000. The forestry, wood products, and paper industries are some of Lithuania's oldest—furniture, matches, and timber products were manufactured in Kaunas and Vilnius in the mid-1800s, and furniture-making prevailed from 1919–40. Currently, chemical timber processing, and the production of furniture, pulp, paper, wood fiber, wood chips, joinery articles, and cardboard, are the main activities of the forestry sector. Intensive timber processing, as well as the recycling of industrial waste are being expanded. The timber cut yielded nearly 5.3 million cu m (187 million cu ft) of roundwood in 2000. Sawn wood production that year was 1,300,000 cu m (46 million cu ft); paper and paperboard, 53,000 cu m (1.87 million cu ft). Exports of forest products amounted to \$200.9 million in 2000.

## 26 MINING

Mineral products accounted for 23% of Lithuania's exports in 2001, and the production of amber was an important industry. Cement, clays, dolomite, limestone, nitrogen, glass sand, and

sand and gravel were the primary mineral products of Lithuania, whose industrial minerals assured self-sufficiency in construction materials. Lithuania remained dependent on imports for its metals and fuel needs. Peat was extracted in the Siauliai, Ežerelis, Paraistis, and Baltoji-Boke regions. Mineral production figures in 2000 included: limestone, 783,300 tons, down from 1.08 million tons in 1999 and 4 million tons in 1994; and cement, 569,500 tons, compared to 788,300 in 1998 and 150,000 in 1994. Following complaints from Lithuania's sole producers of cement and quicklime, the government launched antidumping investigations directed against Belarussian products. If the government were to take steps to protect the domestic construction material market, Lithuania could lose its export market in Belarus.

## 27 ENERGY AND POWER

Energy production in Lithuania has long depended on imported oil, natural gas, and coal. After World War II (1939–45), Lithuania had no capacity to generate electricity. By the late 1980s, there were seven electricity-generating facilities, including one hydroelectric and one nuclear power station. In 2000, net electricity generation was 11.3 billion kWh, of which 20.2% came from fossil fuels, 3.1% from hydropower, and 76.7% from nuclear energy. In the same year, consumption of electricity totaled 6.9 million kWh. Total installed capacity at the beginning of 2001 was 5.8 million kW. With power production substantially exceeding consumption, Lithuania exports electricity to Latvia, Russia, and Belarus, although shipments to Belarus have been interrupted due to payment problems. The Ignalina nuclear plant has twin 1,300 MW Chernobyl-type reactors, which produced 70% of the country's electricity in 2000.

Lithuania had 12 million barrels of proven oil reserves in 2002, but potential onshore and offshore reserves could be much greater. Oil production in 2000 was 4,200 barrels per day, with consumption of 60,000 barrels per day, so Lithuania imports the bulk of its oil, mostly from Russia. Lithuania is also a net natural gas importer, with consumption of 2.6 billion cu m (29 billion cu ft) in 2000. Russia's Gazprom is a major source of the country's gas imports. In 1995, the Lithuanian government began authorizing the partial privatization of enterprises in the energy sector, including Lithuania Gas, the Ignalina nuclear plant, the Mazheikiai oil refinery, and the Fatotiekis (Pipeline) company.

## 28 INDUSTRY

Lithuania underwent rapid industrialization during the Soviet era and has significant capacity in machine building and metalworking, as well as the textile and leather industries, and agro-processing (including processed meat, dairy products, and fish). The country's diverse manufacturing base also includes an oil refinery and high-tech minicomputer production. Other industrial products include refrigerators and freezers, electric motors, television sets, metal-cutting machine tools, small ships, furniture, fertilizers, optical equipment, and electronic components. Due to a rapid program of privatization, more than 80% of Lithuania's enterprises are privately owned. Most capital investment has gone into the industrial sector. Major infrastructure projects were planned in 2002, including upgrading the oil refinery, the nuclear power plant, construction of a main highway, and the modernization of sea-port facilities. The industrial sector accounted for about 31% of GDP in 2001.

## 29 SCIENCE AND TECHNOLOGY

The Lithuanian Academy of Science, founded in 1941, has departments of mathematical, physical, and chemical sciences; biological, medical, and agricultural sciences; and technical sciences. In 1987–97, science and engineering students accounted for 31% of university enrollment. Ten research institutes



concerned with medicine, natural sciences, and technology, mostly in Vilnius, and a botanical garden in Kaunas are attached to the academy. Four other institutes conduct research in medicine and forestry. Seven universities and colleges offer degrees in basic and applied sciences. In 1987–97, Lithuania had 2,028 scientists and engineers per one million people engaged in research and development.

### 30 DOMESTIC TRADE

Vilnius, Klaipėda, and Kaunas each have shopping areas and several markets; many smaller towns have a central market. Several supermarkets have opened within the past few years. There are also a number of newer privately-owned import businesses taking root. As of 2002, manufacturing accounted for about 23% of the GDP and wholesale/retail sales were up to about 15% and 8.4% respectively. For a time, inflation (estimated at 23% in 1996) severely hindered domestic purchasing power. By 1998, however, inflation was down to 5.1% and the 2002 estimate was at 0.8%. A cash economy still prevails, though some major hotels and restaurants have accepted credit cards.

### 31 FOREIGN TRADE

Lithuania depends heavily on trade, particularly with other republics of the former Soviet Union. In 2000, total imports were valued at \$5.5 billion, and exports at \$3.8 billion. In the mid-to-late 1990s, Lithuania was trading more with Western nations, and reducing its reliance on trade with former Soviet republics. Trade with the West increased from 15% to 60% between 1990 and 1995, while trade with former Soviet republics fell from 78% in 1990 to 40% in 1995. Since Lithuania's independence in 1990, growing disruptions in trade with Russia and the other former Soviet republics have resulted in a steep decline in import volumes and numerous domestic shortages.

Refined petroleum products make up Lithuania's most beneficial export commodity (18%), followed by fertilizers (5.1%) and furniture (3.5%). Other export commodities include wood (2.9%), transistors (3.3%), and automobiles (2.7%).

In 2000 Lithuania's imports were distributed among the following categories:

Consumer goods	12.5%
Food	8.5%
Fuels	21.7%
Industrial supplies	30.3%
Machinery	14.6%
Transportation	9.3%
Other	3.1%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Latvia	572	213	359
Germany	546	926	-380
United Kingdom	297	233	64
Russia	271	1,457	-1,186
Poland	208	343	-135
Denmark	186	229	-43
Netherlands	183	195	-12
Ukraine	168	78	90
France	167	164	3
Belarus	111	99	12

### 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Lithuania's exports was \$5.4 billion while imports totaled \$6.8 billion resulting in a trade deficit of \$1.4 billion.

The International Monetary Fund (IMF) reports that in 1998 Lithuania had exports of goods totaling \$4.89 billion and imports totaling \$6 billion. The services credit totaled \$1.16 billion and debit \$700 million. The following table summarizes Lithuania's balance of payments as reported by the IMF for 1998 in millions of US dollars.

<b>Current Account</b>	<b>-574</b>
Balance on goods	-1,108
Balance on services	457
Balance on income	-180
Current transfers	258
<b>Capital Account</b>	<b>1</b>
<b>Financial Account</b>	<b>778</b>
Direct investment abroad	-7
Direct investment in Lithuania	446
Portfolio investment assets	26
Portfolio investment liabilities	238
Other investment assets	-225
Other investment liabilities	301
<b>Net Errors and Omissions</b>	<b>154</b>
<b>Reserves and Related Items</b>	<b>-359</b>

### 33 BANKING AND SECURITIES

Since 1991, Lithuania has reorganized its banking sector numerous times. A myriad of banks emerged after independence, most of them weak. Consequently, consolidations, mergers, and collapses became a regular feature of the country's banking system.

On 3 July 1992 the government adopted a new currency unit, the lita, to replace the ruble. Between 1992 and 1995, six banks lost their licenses and two were merged; as of mid-1996, 16 were either suspended or facing bankruptcy procedures. The first serious crisis centered on Aurasbankas, the eighth largest bank in the country, and the deposit bank for many ministries. The Bank of Lithuania suspended Aurasbankas's operations in mid-1995 because of liquidity problems caused by bad lending and deposit-taking practices. In July 1995, the minimum capital requirement for existing banks was raised from L5 million to L10 million, the level already established for new banks. By May 1999, only five commercial banks remained. Moreover, foreign investment by Sweden's Swedbank and SE-Banken, helped keep Hansapank-Hoiupank and Uhispank-Tallinna, respectively.

Operations at Lithuania's largest bank, the Joint-Stock Innovation Bank, were suspended on 20 December 1995, and those of the Litimpeks bank, the country's second largest, two days later. The two were in the process of merging to create the Lithuania United Bank and the fraud was uncovered during pre-merger audits. Due to rumors of a devaluation of the currency, a shortage of foreign exchange throughout the whole banking sector was created.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$3.2 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 3.37%.

The National Stock Exchange, which opened in September 1993, is the most active in the region, with 245 listed companies. Monthly turnover by the end of 1994 had reached L20.8 million. The market gains continued into 1999 as the index rose 15%.

In 1997, a key feature of the new economic framework in Lithuania was the pegging of the lita to a currency basket composed of the dollar and the D-mark. In 1999, the Bank of Lithuania announced its intention to peg the lita to the euro in 2001.

### 34 INSURANCE

Lithuania's health insurance system is reminiscent of the Soviet era through a state-run system of coverage for all residents.

### 35 PUBLIC FINANCE

Lithuania had, of course, a planned economy under the Soviet regime, and the implementation of collective farming ravaged the agricultural sector for over a decade. It was not until the early 1960s and the introduction of chemicals that crop production recovered to pre-WWII levels. The crop boom that followed as a result of the chemical innovations left many ecological problems. Privatization following independence occurred slowly but steadily, and in 1998 it looked like the economy had survived the growing pains of dismantling the socialist system. However, the August 1998 collapse of the Russian ruble reverted Lithuania's economy back to negative growth and refocused the country's trade toward the West. In 1997, exports to former Soviet nations accounted for 45% of total exports. By 2002, that number was only 19%, as 71% of exports went to EU member countries and candidates. Privatization was nearly complete as of 2002, except for the energy sector, where energy company privatization was completely on hold and gas company privatization delayed.

The US Central Intelligence Agency (CIA) estimates that in 2001 Lithuania's central government took in revenues of about \$1.6 billion and had expenditures of \$1.8 billion. Overall, the government registered a deficit of approximately \$180 million. External debt totaled \$5.8 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	98.0%	1,558
Tax revenue	89.2%	1,418
Non-tax revenue	8.6%	137
Capital revenue	0.2%	4
EXPENDITURES	100.0%	1,770
General public services	4.8%	84
Defense	6.0%	106
Public order and safety	6.6%	117
Education	7.3%	130
Health	16.1%	285
Social security	35.5%	629
Recreation, cultural, and religious affairs	1.8%	33
Economic affairs and services	12.1%	214
Other expenditures	3.9%	69
Interest payments	5.9%	104

### 36 TAXATION

Lithuania has one of the most liberal tax regimes in Europe. The corporate income rate was reduced from 24% to 15% as of 1 January 2002. Enterprises which derive at least half of their revenue from agricultural goods and services can qualify for a 0% corporate tax rate. Small enterprises with gross income of less than €144,810 (LTL500,000) and have no more than 10 employees are taxed, as of 2002, at 13% of profits, down from 15%. Capital gains are considered part of corporate income and are taxed at the corporate rate. Dividends are generally taxed at 15% but if paid to a nonresident company that owns more than 10% of its voting shares (i.e., its parent company), there is no tax. This provision is not applicable to companies operating in Free Economic Zones (FEZs), which offer 80% reduction in the corporate income tax rate for the first five years, and a 50% reduction for an additional five years. The statutory withholding rates are 15% for dividend income and 10% for interest and

royalty. Withholding rates on capital income are often reduced to 10% and 5% in bilateral double tax prevention treaties between Lithuania and other countries.

Lithuanian personal income tax law make a distinction between income from one's principal place of employment, which is taxed at a flat rate after extensive deductions, and income from supplemental sources, which is taxed according to a progressive schedule of brackets ranging from 10% to 35%. The flat rate for principal income was 33% in 2002 and reduced to 29% for 2003. Deductions from income for the primary flat tax include a non-taxable minimum which is higher for disabled persons, single parents and other specified groups, plus all social security and social assistance payments, death benefits, court awards, gifts, allowances for insurance payments, charity donations, and most payments to pension accounts. The lowered flat tax rate in 2003 was accompanied by the introduction of a 1.5% real estate tax. Gifts and inheritances are taxed at 0%, 5% and 10% depending on the amount involved.

The main indirect tax is Lithuania's value-added tax (VAT) enacted 22 December 1993 and most lately revised in 1 July 2002 for application in 2003. There is a base rate of 18%, applicable to most goods and services, and three reduced rates; 5% and 9% rates are applied to foodstuffs and "environmentally friendly" products as well as to newspapers, journals, newspaper paper, drugs and medicines that have previously been exempt for VAT. Exports and services for non-residents and pertaining to non-resident property, including tourist, travel agency, international passenger and real estate services, have 0% VAT rates. There are also excise duties on ethyl alcohol and alcoholic beverages, tobacco and fuels. However, by the new Law on Excise Duties of 1 July 2002 excise taxes on jewelry, electrical energy, coffee, chocolate, and other food products have been abolished, and turnover taxes have replaced excises on sugar, luxury cars, liquid cosmetics containing ethyl alcohol, and publications of an erotic and/or violent nature. In 1999, the government introduced a pollution tax on packets to encourage the recycling of packaging material.

### 37 CUSTOMS AND DUTIES

Most foreign imports, including all raw materials, are duty-free. Exceptions include food products (5–10%), fabrics (10%), electronics (10%), cement (25%), and window glass (50%). The average tariff on consumer products is 15%. Alcoholic beverages are subject to duties ranging from 10% for beer to 100% for some liquor. An 18% VAT is also placed on imports. In 1993, Lithuania, Estonia, and Latvia formed a free trade area, which eliminated customs duties and quotas between the three Baltic States. In accordance with Lithuania's desire to join the European Union, some duties on EU goods will be lowered.

### 38 FOREIGN INVESTMENT

In May 1991, a foreign investment law was passed permitting majority holdings by non-residents and guaranteeing the full transfer of profits.

Various tax benefits may be granted to foreign investors depending on the type and size of the investment. When purchasing privatized Lithuanian companies or forming joint ventures, foreign investors are usually expected to provide employment guarantees.

Foreigners from European Union and NATO-member nations may own land, while foreigners from all other nations may not. The provision is aimed primarily at foreigners from former Soviet republics who are the main non-Western investors in Lithuania. Foreigners not eligible to own land may rent it for a period of up to 99 years.

In 1998, foreign direct investment (FDI) inflow into Lithuania reached \$925.5 million, up from \$354.5 million the year before, due largely to the privatization of Lithuania's telecommunications

company. From 1999 to 2001, FDI inflow averaged \$437 million a year. In 2002, contrary to worldwide trends of decreasing inward FDI flows, FDI in Lithuania rose 21.9% to \$543 million.

### 39 ECONOMIC DEVELOPMENT

In 1990, the Lithuanian government began a comprehensive economic reform program aimed at effecting the transformation to a market-driven economy. Reform measures include price reform, trade reform, and privatization. By mid-1993, 92% of housing and roughly 60% of businesses slated for privatization had been privatized. By 1996, about 36% of state enterprises and about 83% of all state property had been privatized. International aid agencies committed about \$765 million of assistance between 1992–95. Most international aid went either to infrastructure construction or loan credits to business. Citing continued progress toward democratic development, in 1999 the United States announced that it was terminating economic assistance to Lithuania. Having established itself as a democratic society with a market economy, Lithuania was invited to join the EU in 2002.

In 2001, Lithuania negotiated a 19-month, \$119-million Stand-By Arrangement with the International Monetary Fund (IMF). In 2002, the country's GDP grew at a rapid pace (6–6.7%), unemployment was declining, the inflation rate fell to near zero, and there was a lower-than-expected general government deficit. In 2002, the tax system was aligned with EU requirements, the financial situation of municipalities and the Health Insurance Fund was improved, privatization moved forward and the financial sector was strengthened. The privatization program for 2003 included the sale of a second 34% stake in Lithuania Gas, one or two electricity distribution companies, and four alcohol producers.

### 40 SOCIAL DEVELOPMENT

A national system of social insurance covers all of Lithuania's residents and was most recently updated in 2000. Old age, sickness, disability, and unemployment benefits are paid on an earnings-related basis, from contributions by both employers and employees. Family allowance benefits are provided by states and municipalities to families with low incomes. There is a universal system of medical care, and a dual social insurance and social assistance program for maternity and health payments. Unemployment benefits are provided to applicants with at least 24 months of previous contributions and is paid for a period not exceeding six months.

Legally, men and women have equal status, including equal pay for equal work, although in practice women are underrepresented in managerial and professional positions. Discrimination against women in the workplace persists. Violence against women, especially domestic abuse, is common. Child abuse is a serious social problem, and in 1995 the government ratified the UN Convention on the Rights of the Child. Authorities link the upsurge in child abuse to alcoholism.

Human rights are generally respected in Lithuania, and human rights organizations are permitted to operate freely and openly. One concern is the Preventive Detention Law, renewed in 1995, which allows persons suspected of violent crime to be held for up to two months while the crime is investigated. Prolonged detention still occurs in some of cases, and poor prison conditions persist.

### 41 HEALTH

In 1998, Lithuania had approximately 13,950 physicians, of which about one-third were primary care providers in the public health system. Most primary care providers are women. In the same year, there were a total of 187 hospitals with 35,612 beds. As of 1999, there were an estimated 4 physicians and 9.2 hospital beds per 1,000 people. Hospitals beds per 1,000 people decreased

by over one-fifth between 1990 and 1998. In 1994, the Public Health Surveillance Service was established to oversee control of communicable diseases, environmental and occupational health, and some other areas. As of 1999, total health care expenditure was estimated at 6.3% of GDP.

One-year-old children were immunized as of 1995 as follows: tuberculosis, 97%; diphtheria, pertussis, and tetanus, 96%; polio, 89%; and measles, 94%. As of 1999 the rates were 93% for DPT and 97% for measles. In 1999, there were 99 cases of tuberculosis per 100,000 people.

Life expectancy was 73 years in 2000. The infant mortality rate in 2000 was 9 per 1,000 live births and the fertility rate has decreased from 2.5 in 1960 to 1.3 in 2000. The maternal mortality rate was 18 per 100,000 live births in 1998. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 8.3 and 14.7 per 1,000 people. As of 1999, the number of people living with HIV/AIDS was estimated at fewer than 500 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.02 per 100 adults. In Lithuania, there has been a 13% increase in diphtheria cases from 1994 to 1995.

In 1992, more than half of all men over 15 (52%) smoked, while only 10% of women smoked. The deaths from cardiovascular disease in 1994 numbered 24,348.

### 42 HOUSING

As of 2001, national statistics indicated that there were 356 housing units per 1,000 people. About 97% of these units are privately owned. The average living space is about 21.5 square meters per person. City governments are being encouraged to take more responsibility for social housing projects. Homeowners associations are being encouraged and new laws are being drafted for residential building associations. The Housing Loan Insurance Company was established in 2000 to provide insurance of loans and to promote housing loans with a low (5%) down payment.

### 43 EDUCATION

For the year 2000, adult illiteracy was estimated at 0.5% (males, 0.3%; females, 0.6%). Education is free and compulsory for all children between the ages of 7 and 15 years (for 9 years). While Lithuanian is the most common medium of instruction, children also study Polish, Russian, and Yiddish. In 1997, primary schools enrolled 225,701 students and employed 14,095 teachers. Student-to-teacher ratio stood at 16 to one. At the secondary level in the same year, there were 378,754 students and 36,932 teachers. As of 1999, 94% of primary-school-age children were enrolled in school, while 88% of those eligible attended secondary school.

Postsecondary institutions had 13,136 teachers and a total student body of 83,645 in 1997. The four known universities are: Kaunas University of Technology (founded in 1950); Vilnius Technical University (founded in 1961); Vilnius University (founded in 1579); and Vytautas Magnus University (founded in 1922). Approximately 22.8% of the government's annual budget was allocated to education in the latter part of the 1990s. As of 1999, public expenditure on education was estimated at 6.4% of GDP.

### 44 LIBRARIES AND MUSEUMS

The National Library at Vilnius has 9.2 million volumes. Founded in 1570, the Vilnius University Library has 5.3 million volumes. Vilnius also has the Central Library of the Academy of Sciences, with 3.66 million volumes. There are dozens of other special collections in the country, including libraries maintained by the Union of Lithuanian Writers, the State Institute of Art, and the Institute of Urban Planning. In 1997, there were 1,478 public libraries in the country.

The majority of Lithuania's museums are in Vilnius, and these include the Lithuanian Art Museum (1941), the National Museum (1856), the Museum of Lithuanian Religious History, and, founded in 1991 just after gaining independence from the Soviet Union, the Lithuanian State Museum, dedicated to the country's suffering under and resistance to Soviet occupation. The Museum of the Center of Europe, an open-air museum displaying large-scale works by European artists, was opened in Vilnius in 1994.

#### 45 MEDIA

Lithuania has one of the best developed telephone systems in the former Soviet Union. In 2001 there were over 1 million main line telephones and 500,000 mobile cellular phones. Broadcasting is controlled by Lithuanian Television and Radio Broadcasting. Radio Vilnius broadcasts in Lithuanian, Russian, Polish, and English. As of 2001 there were 29 AM and 142 FM radio stations. There were also 27 television stations. In 2000 there were about 500 radios and 422 television sets for every 1,000 people. The same year, there were about 65 personal computers in use for every 1,000 people. In 2001, there were 32 Internet service providers serving 341,000 users.

The most popular daily newspapers are *Lietuvos Rytas* (*Lithuania's Morning*, in Russian), with a 2002 circulation of 85,000; *Respubliká* (55,000); *Lietuvos Aidas* (*The Echo of Lithuania*, 20,000); and *Kauno Diena* (*Kaunas Daily*, 57,000). There are also several periodicals available.

The constitution provides for free speech and a free press, and the government is said to uphold these provisions. Since independence, the independent print media have flourished, producing some 2,000 newspapers and periodicals, and plans for a number of private radio and television stations are underway.

#### 46 ORGANIZATIONS

Important economic organizations include the Association of Chamber of Commerce and Industry, an organization that coordinates the activities of all the chambers of commerce in Lithuania. There are three umbrella trade union organizations in the country: the Lithuania Confederation of Free Trade Unions, the Lithuania Union of Trade Unions, and the Lithuanian Workers' Union.

The Lithuanian Academy of Sciences promotes education and research in a wide variety of scientific fields. There are a number of sports associations in the country. The Council of Lithuanian Youth Organizations helps organize and support a variety of youth groups. Scouting programs and chapters of the YMCA/YWCA are also active for youth. Kiwanis and Lion's clubs that programs in the country. The Red Cross is also active.

#### 47 TOURISM, TRAVEL, AND RECREATION

The capital city of Vilnius has one of the largest historic districts in Eastern Europe, distinguished primarily by its Baroque churches, many of which have been reclaimed since independence by money and missionaries from abroad. Kaunas, Lithuania's second-largest city, offers the tourist old merchants' buildings and museums, and the seaside resort towns are active in the summer.

There is a shortage of quality hotels, although some have been restored with foreign investment. The traveler can participate in tennis, fishing, sailing, rowing, and winter sports. Lithuanians have long distinguished themselves at basketball, and have contributed top players to the Soviet teams. Seven Lithuanians have Olympic gold medals, and the national basketball team won a bronze medal in Barcelona in 1992.

Besides valid passports, all visitors need visas, except nationals of the UK, Hungary, Poland, and Denmark.

In 2000, an estimated 4,092,000 visitors arrived in Lithuania and tourism receipts totaled \$391 million. That year there were 6,632 hotel rooms with 12,897 beds and a 28% occupancy rate.

In 2002 the US government estimated the cost of staying in Vilnius was \$185 per day.

#### 48 FAMOUS LITHUANIANS

President Valdas Adamkus has been chief of state since 26 February 1998.

#### 49 DEPENDENCIES

Lithuania has no territories or colonies.

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# LUXEMBOURG

Grand Duchy of Luxembourg  
[French] *Grand-Duché de Luxembourg*  
[German] *Grossherzogtum Luxemburg*

**CAPITAL:** Luxembourg

**FLAG:** The flag is a tricolor of red, white, and blue horizontal stripes.

**ANTHEM:** *Ons Hémecht (Our Homeland)*.

**MONETARY UNIT:** The Luxembourg franc was replaced by the euro as official currency as of 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Labor Day, 1 May; public celebration of the Grand Duke's Birthday, 23 June; Assumption, 15 August; All Saints' Day, 1 November; Christmas, 25–26 December. Movable religious holidays include Shrove Monday, Easter Monday, Ascension, and Pentecost Monday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

A landlocked country in Western Europe, Luxembourg has an area of 2,586 sq km (998 sq mi), with a length of 82 km (51 mi) N-S and a width of 57 km (35 mi) E-W. Comparatively, the area occupied by Luxembourg is slightly smaller than the state of Rhode Island. The eastern boundary with Germany is formed by the Our, Sûre (Sauer), and Moselle rivers. Luxembourg is bordered on the S by France and on the W and N by Belgium, with total border length of 359 km (223 mi).

Luxembourg's capital city, Luxembourg, is located in the southcentral part of the country.

## <sup>2</sup>TOPOGRAPHY

The country is divided into two distinct geographic regions: the rugged uplands (Oesling) of the Ardennes in the north, where the average elevation is 450 m (1,476 ft) with the highest point, Buurgplatz, is 559 m (1,834 ft); and the fertile southern lowlands, called Bon Pays (Good Land), with an average altitude of 250 m (820 ft).

The entire area is crisscrossed by deep valleys, with most rivers draining eastward into the Sûre, which in turn flows into the Moselle on the eastern border. The northern region, comprising one-third of the country, is forested and has poor soil.

## <sup>3</sup>CLIMATE

Luxembourg's climate is temperate and mild. Summers are generally cool, with a mean temperature of about 17°C (63°F); winters are seldom severe, average temperature being about 0°C (32°F). The high peaks of the Ardennes in the north shelter the country from rigorous north winds, and the prevailing northwesterly winds have a cooling effect. Rainfall is plentiful in the extreme southwest; precipitation throughout the country averages about 75 cm (30 in) annually.

## <sup>4</sup>FLORA AND FAUNA

The principal trees are pine, chestnut, spruce, oak, linden, elm, and beech, along with fruit trees. There are many shrubs, such as

blueberry and genista, and ferns; a multitude of lovely flowers; and many vineyards. Only a few wild animal species (deer, roe deer, and wild boar) remain, but birds are plentiful, and many varieties of fish are found in the rivers, including perch, carp, bream, trout, pike, and eel.

## <sup>5</sup>ENVIRONMENT

The Ministry of the Environment is the main environmental agency. Government statistics indicate considerable improvement in pollution control. Emissions of particles of sulfur dioxide declined substantially from 1972 to 1983. As of 1994, emissions of smoke, sulfur dioxide, nitrogen dioxide, and lead were well within EU acceptable limits. Luxembourg has 0.2 cu mi of water, with 45% used for industrial activity and 13% used in farming. The nation's cities produce 0.2 tons of solid waste and 817.7 tons of toxic substances. Luxembourg produces 3.3 tons of particulate emissions and 22 tons of hydrocarbon emissions per year.

Forest reserves have been severely depleted since 1800, when three-fourths of the country was forest; today forest and woodland cover only one-fifth of Luxembourg. During World War II, German requisitions and heavy demands for fuel contributed to this depletion. There is one endangered mammal species in Luxembourg, as well as eight bird species and one species of plant. Animals extinct in Luxembourg include the wolf and European otter.

## <sup>6</sup>POPULATION

The population of Luxembourg in 2003 was estimated by the United Nations at 453,000, which placed it as number 163 in population among the 193 nations of the world. In that year approximately 14% of the population was over 65 years of age, with another 19% of the population under 15 years of age. There were 97 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 1.32%, with the projected population for the year 2015 at 522,000. The population density in 2002 was 174 per sq km (450 per sq mi).

It was estimated by the Population Reference Bureau that 92% of the population lived in urban areas in 2001. The capital city, Luxembourg, had a population of 79,000 in that year. The chief industrial city is Esch-sur-Alzette, with a population of 24,012. Other urban areas include Dudelange, 14,677; Differdange, 8,489; and Schifflange, 6,859. According to the United Nations, the urban population growth rate for 2000–2005 was 0.7%.

## 7 MIGRATION

During the 19th century, thousands of Luxembourgers emigrated, chiefly to the US. In 1870, however, rich deposits of iron ore were uncovered in southern Luxembourg, and during the period of industrialization and prosperity that followed, many persons from neighboring countries migrated to Luxembourg.

Since the adoption of national asylum legislation in April 1996, there has been a significant increase in the number of asylum seekers. In 1997, 431 people applied for asylum. By 1998, 1,709 people applied. Between January and July 1999, as many as 2,404 people submitted asylum applications. The great majority are from the Federal Republic of Yugoslavia.

As of 12 August 1999, 101 people had been evacuated from Macedonia to Luxembourg. Evacuees were given a six-month renewable residence permit, as well as work permits, social assistance, and the right to family reunification. As of 1999, none of the evacuees had returned. Also as of 1999, Luxembourg officials were in the process of adopting a law on temporary protection. The net migration rate in 1999 was 7.78 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The indigenous inhabitants of Luxembourg consider themselves a distinct nationality, with a specific ethnic character. A strong indication of that character is the national motto, “Mir woelle bleiwe wat mir sin” (“We want to remain what we are”), for despite a history of long foreign domination, Luxembourgers have retained their individuality as a nation. There are also native-born residents of Celtic, French, Belgian, or German ancestry, as well as a substantial immigrant population of Portuguese, Italian, and other Europeans (guest and worker residents).

## 9 LANGUAGES

Luxembourgers speak Luxembourgian, or Letzeburgesch, the original dialect of the country, as well as French and German. All three are official languages. Letzeburgesch is a Germanic dialect related to the Moselle Frankish language that was once spoken in western Germany. It rarely appears in written form.

Letzeburgesch, French, and German are all languages of instruction in primary schools, while French is the most common language of instruction in secondary schools. Government publications are generally in French. English is also spoken.

## 10 RELIGIONS

There is complete religious freedom within the country and, by law, the government may not collect statistics on religious affiliation. However, Catholic priests, Protestant pastors, and Jewish rabbis are paid by the state. The country is historically Roman Catholic and it is estimated that over 90% of the population are nominally members of this church. The largest Protestant denominations are Lutheran and Calvinist. About 6,000 people are Muslim, about 1,500 are Greek Orthodox, and about 1,000 are Jewish. There are also small communities of the Baha'is, Mormons, Jehovah's Witnesses and Members of the Universal Church. It is believed that the number of atheists is small, but growing.

## 11 TRANSPORTATION

Transportation facilities are excellent. The railways are consolidated into one organization, the *Société Nationale des Chemins de Fers Luxembourgeois* (CFL), with the government of Luxembourg controlling 51% of the stock and the remaining 49% divided between the French and Belgian governments. Railway lines, totaling 274 km (170 mi) in 2002, provide direct links with Belgium via Arlon, with France via Metz and Longwy, and with Germany via Trier. There is through-train service to Paris and various other points in France. In 2002, 242 km (150 mi) of railway were electrified.

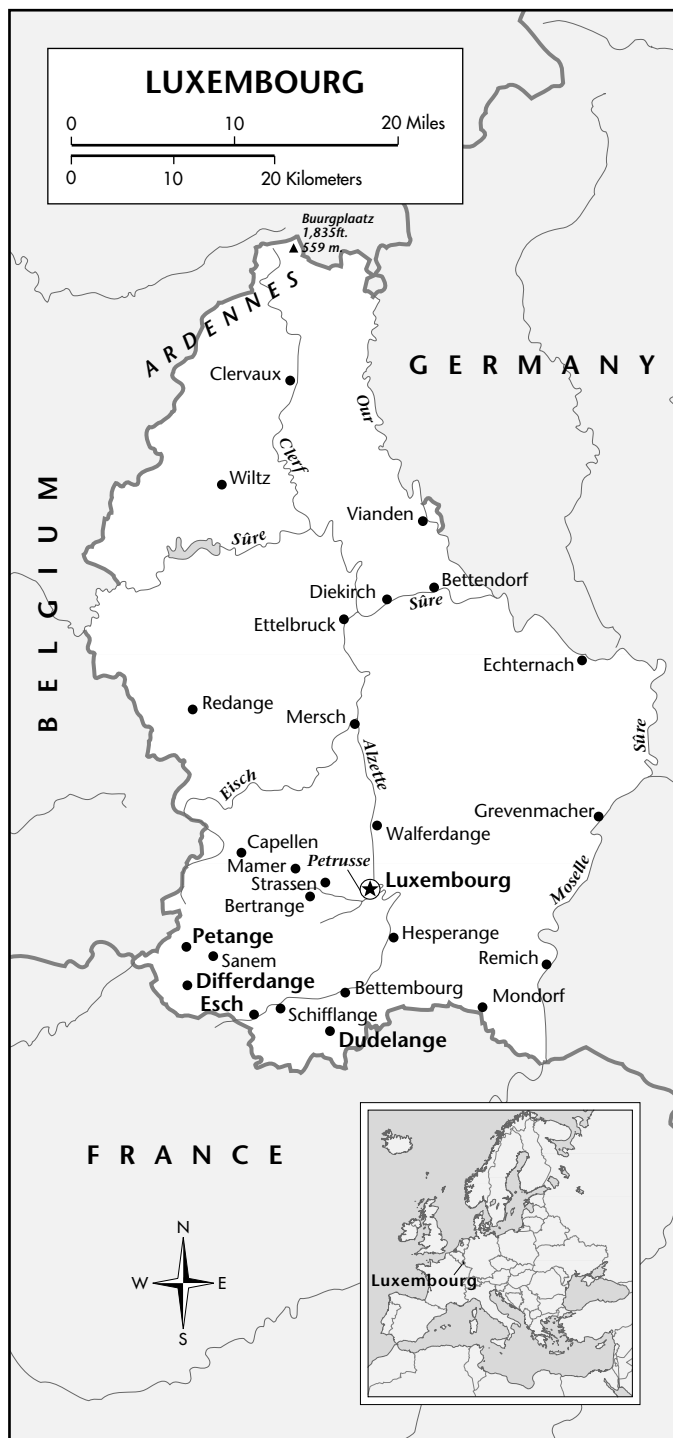
In 2002 there were 5,166 km (3,210 mi) of state and local roads, all of which were paved, including 118 km (73 mi) of expressways. Direct roads connect all important towns, and the main arteries are suitable for heavy motor traffic. As of 1995, 231,600 cars and 16,655 commercial vehicles were registered. In the 1990s, a program was underway to link Luxembourg's highways to those of Belgium, France, and Germany.

The only river available for industrial transport is the Moselle, which for 37 km (23 mi) allows navigation of barges of up to 1,500 tons. In 2002, the merchant fleet comprised 60 ships with a total of 1,487,752 GRT. There were two airports in 2001, only one of which had a paved runway. The principal airport is Findel, located near the city of Luxembourg. Regular flights to other European cities are operated by Luxair, the national carrier, and by foreign airlines. Luxembourg's largest airline, Cargolux, ranks among Europe's top ten cargo carriers. Luxembourg and the United States have shared open sky aviation rights since a 1995 agreement. In 2001, 885,900 passengers were carried on scheduled airline flights.

## 12 HISTORY

The land now known as Luxembourg fell under the successive domination of the Celts, the Romans, and the Riparian Franks before its founding as the County of Luxembourg in 963 by Sigefroid, count of the Ardennes, who reconstructed a small ruined fortress called Lucilinburhuc (Little Burg) on the site of the present capital. The area tripled in size during the reign of Countess Ermesinde (1196–1247). John, count of Luxembourg (r. 1309–46) and king of Bohemia, became the national hero; although blind for many years, the inveterate knight-errant laid the foundations for a powerful dynasty before he fell in the Battle of Crécy, in northern France, during the Hundred Years' War. His son Charles (1316–78) was the second of four Luxembourg princes to become Holy Roman emperor. He made Luxembourg a duchy, but under his successors the country was ruined financially.

Luxembourg came under Burgundian rule in 1443 and remained in foreign hands for more than 400 years. Successively it passed to Spain (1506–1714, excepting 1684–97, when it was ruled by France), Austria (1714–95), and France (1795–1815). The Congress of Vienna in 1815 made Luxembourg a grand duchy and allotted it as an independent state to the king of the Netherlands, after ceding to Prussia its territory east of the Moselle, Sûre, and Our. Luxembourg lost more than half its territory to Belgium in 1839, but gained a larger measure of autonomy, although Dutch kings continued to rule as grand dukes. By the Treaty of London in 1867, Luxembourg was declared an independent and neutral state under the protection of the Great Powers, but was required to dismantle its mighty fortress. In 1890, the house of Nassau-Weilbourg, through the Grand Duke Adolphe (r. 1890–1905), became the ruling house of Luxembourg. The country was occupied by German troops in World War I. In 1919, Grand Duchess Charlotte succeeded to the throne, and on 28 September 1919, in a referendum held to decide the country's future, a plurality supported her. In 1921, Luxembourg formed an economic union with Brussels.



LOCATION: 49°26' 52" to 50°10' 58" N; 5°44' 10" to 6°31' 53" E. BOUNDARY LENGTHS: Germany, 135 kilometers (84 miles); France, 73 kilometers (45 miles); Belgium, 148 kilometers (92 miles).

The Germans again invaded the country in May 1940, but the grand ducal family and most members of the government escaped to safety. Under the Nazi occupation, the people suffered severely, particularly when their revolt in 1942 protesting compulsory service in the German army was savagely repressed. Luxembourg was liberated by Allied forces in September 1944.

That year, while still in exile, the government agreed to form an economic union with Belgium and the Netherlands; the first

phase, the Benelux Customs Union, was effected in 1948. In February 1958, a treaty of economic union, which became effective in 1960, was signed by representatives of the three countries. During the postwar decades, Luxembourg also became an active member of NATO and the EC.

In April 1963, Luxembourg celebrated its 1,000th anniversary as an independent state. On 12 November 1964, Grand Duchess Charlotte abdicated in favor of her son, Jean. The Grand Duke announced on Christmas Day 1999 that he planned to abdicate in favor of his eldest son Prince Henri in September 2000. (Prince Henri took the throne on 7 October 2000.) Jean's reign was marked by continued prosperity, as Luxembourg's economy shifted from dependence on steel to an emphasis on services, notably finance and telecommunications. Luxembourg is now among the world's top ten financial centers and the financial sector employs approximately 10% of the workforce (20,000 people) and accounts for around one fifth of national income.

Different governments have played a key role in the diversification process and the development of a skilled workforce has been an important instrument. Equally important is the country's tax regime. Luxembourg's 0% withholding tax on crossborder savings acts as a magnet for investors. Its favorable tax law is at odds with the rest of the European Union and pressures for European-wide harmonization would diminish the sector's competitive advantage.

The country's growth rate has been among the highest in the European Union and averaged over 4% annually between 1994 and 2000. Luxembourg suffered due to the global economic downturn and the turmoil in international stock markets that began in 2001, as its small, open economy specializes in financial services. Luxembourg joined Economic and Monetary Union in 1999.

### 13 GOVERNMENT

Luxembourg is a constitutional monarchy, governed by the constitution of 1868 as revised in 1919 (when universal suffrage and proportional representation were introduced) and subsequently. The grand ducal crown is hereditary in the house of Nassau-Weilbourg. Legislative power is vested in the Chamber of Deputies, the 60 (prior to 1984, 64 members) members of which are elected for five-year terms. In addition, the Council of State, composed of 21 members appointed for life by the sovereign, acts as a consulting body in legislative, administrative, and judicial matters and has the right of suspensive veto.

Executive power rests jointly in the sovereign, who may initiate legislation, and a prime minister (president of the government), appointed by the monarch, who in turn selects a cabinet. The prime minister, together with the cabinet, must command a majority in the Chamber of Deputies. Voting is compulsory, and eligibility begins at age 18.

### 14 POLITICAL PARTIES

Since 1947, shifting coalitions among the three largest parties have governed the country. The Christian Social Party (Parti Chrétien Social—PCS) is a Catholic, promonarchist movement favoring progressive labor legislation and government protection for farmers and small business. Except for the period 1974–79, the PCS has been the dominant partner in all ruling coalitions since World War I. The Socialist Party (Parti Ouvrier Socialiste Luxembourgeois—POSL) supports improvement and extension of the present system of social welfare programs. The third major group, the Democratic Party (Parti Démocratique—PD), favors social reforms and minimal government activity in the economy. Other parties have included the Luxembourg Communist Party (Parti Communiste—PC), which has its main strength with steelworkers in the industrialized south, and the Social Democratic Party (Parti Social-Démocrate Luxembourgeois—PSDL), which split from the POSL in 1971. In addition, the

ecologist Green Party has representation in parliament, as does the Action Committee for Democracy and Justice (ADR), a pensioners' party. The Marxist and Reformed Communist Party, known as "The Left," secured one seat in the Chamber of Deputies in 1999.

Following the June 1999 elections, the distribution of seats in the 60-member unicameral Chamber of Deputies was: PCS, 19; POSL, 13; PD, 15; and other groups, 13. The coalition of the PCS and POSL, which had governed for 15 years, was replaced by a coalition of the PCS and PD. Jean-Claude Juncker, leader of PCS, remained as prime minister.

## 15 LOCAL GOVERNMENT

Luxembourg is divided into three districts (Luxembourg, Diekirch, and Grevenmacher) comprising 12 cantons, which in turn make up 118 communes. The districts are headed by commissioners—civil servants who are responsible to the central government. Each commune elects an autonomous communal council headed by a burgomaster; the councils elect government officials at the local level. Local elections are held every six years.

## 16 JUDICIAL SYSTEM

The legal system is similar to the French Napoleonic Code, except for the commercial and penal divisions, which are similar to their Belgian counterparts. Minor cases generally come before one of three justices of the peace. On a higher level are the two district courts, one in the city of Luxembourg and the other in Diekirch. The Superior Court of Justice is composed of the Court of Cassation, a Court of Appeal, and a department of public prosecution. The Court of Cassation comprises a bench of five judges, responsible for hearing cases that seek to overturn or set aside decisions given by the various benches of the Court of Appeal. The Court of Appeal consists of nine benches of three judges each, hearing civil, commercial, and criminal cases. Judges are appointed for life terms. New administrative courts began operations in 1997, after a 1995 decision by the European Court of Human Rights that Luxembourg's Council of State could no longer serve as both a legislative advisory body and an administrative court. The death penalty was abolished in 1979. The prosecutor as well as the defendant may appeal verdicts in criminal cases. An appeal results in a completely new judicial procedure with the possibility that a sentence may be increased or decreased.

Luxembourg is the site of the European Court of Justice.

## 17 ARMED FORCES

In 1967, Luxembourg abolished conscription and created a volunteer military force that is part of NATO. Responsibility for defense matters is vested in the Ministry of Public Force, which also controls the police and gendarmerie.

In 2002 the armed forces of Luxembourg consisted of the army numbering 900 and a gendarmerie of 612. NATO maintains 19 early warning aircraft with Luxembourg registration. Luxembourg maintains 23 personnel in the UN peacekeeping mission in Bosnia. More than 5,000 American soldiers, including Gen. George S. Patton, are buried at the American Military Cemetery near the capital. Budgeted defense expenditures in 2001–02 were \$147.8 million or 0.8% of GDP.

## 18 INTERNATIONAL COOPERATION

Luxembourg is a founding member of the UN, having joined the organization on 24 October 1945, and participates in ECE and all the non-regional specialized agencies. Since 1921, it has been joined with Belgium in the Belgium-Luxembourg Economic Union (BLEU); it is a partner with Belgium and the Netherlands in the Benelux Economic Union.

Luxembourg is a member of the Council of Europe, the European Coal and Steel Community (headquartered in

Luxembourg), the other EU agencies, NATO, OECD, WTO, and many other international organizations.

## 19 ECONOMY

In relation to its size and population, Luxembourg is one of the most highly industrialized countries in the world. Its standard of living rivals that of any country in Europe. Steelmaking, traditionally the most important industry, has seen its contribution to GDP decline from 21% in 1974 to 1.8% in 1996. Iron ore, formerly mined in limited quantities, is no longer produced because supplies have been exhausted. The country's lack of industrial fuels makes it completely dependent on imports of coke for steel production. In 2001, Luxembourg's steel producer, ARBED, merged with France's USINOR and Spain's ACERALA to create the world largest steel company, NewCo, in order to increase competitiveness. Other industries—plastics, rubber and chemicals and other light industries—have been successfully developed, and the service industries, most notably banking, have expanded rapidly. Services now contribute 69% to GDP (2000 estimate).

Agriculture is generally small-scale, with livestock and vineyards comprising the most important segment.

The worldwide recession of the early 1980s adversely affected Luxembourg's economy; between 1985 and 1992, however, GDP grew by 32%, or 4% per year. Growth for 1998 was 2.9%. Inflation, as high as 9.4% in 1982, was only 0.3% in 1986 and averaged 3.3% during 1988–92. Average inflation 1999 to 2001 was 2.3%. Total GDP, at \$13.9 billion in 1998 (purchasing power parity) had risen over 38% to \$19.2 billion by 2001. Per capita income in 2001 was \$45,500, one of the highest in the world, with GDP growth reported at 8.3%.

Luxembourg is known for having one the lowest unemployment rates in Europe. The unemployment rate averaged just 1.4% between 1984 and 1991 and was 3% in 1998. In 2001, unemployment was at 2.7%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Luxembourg's gross domestic product (GDP) was estimated at \$20 billion. The per capita GDP was estimated at \$44,000. The annual growth rate of GDP was estimated at 2.3%. The average inflation rate in 2002 was 1.6%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 1% of GDP, industry 30%, and services 69%.

The World Bank reports that in 2000 per capita household consumption (in constant 1995 US dollars) was \$23,308. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 2%. Approximately 17% of household consumption was spent on food, 9% on fuel, 3% on health care, and 7% on education. The richest 10% of the population accounted for approximately 22.0% of household consumption and the poorest 10% approximately 4.0%.

## 21 LABOR

In 2000, the labor force numbered 262,300, including 87,400 foreign workers who cross the border from France, Belgium and Germany. Of those employed, 90% were in the service sector, 8% in industry and 2% in agriculture. The 2002 estimated unemployment rate was 4.1%.

Labor relations have been generally peaceful since the 1930s. Foreign investors are attracted by the positive relationship which exists in Luxembourg between employers and the labor force.



There is a strong trade union movement; about 57% of the labor force was organized in. Although independent, the two largest labor organizations are associated with major political parties. Workers may strike only after their dispute is submitted to the National Conciliation Office and all mediation efforts have failed. Collective bargaining is widely practiced.

As of 2002, workers who are at least 18 years of age with no dependents are entitled to a minimum wage of \$6.34 per hour. Wage agreements are generally arrived at by industry-wide bargaining between labor and management. The maximum workweek is legally set at 40 hours. Work on Sunday is restricted. Children under the age of 16 are prohibited from employment except in some special circumstances. The law mandates a safe working environment and this is effectively enforced by the Ministry of Labor.

## 22 AGRICULTURE

Over 27% of the work force and 50% of the land (126,629 ha/312,900 acres) are devoted to agriculture and grazing; the majority of agricultural land consists of meadows and pastures. Farms are generally small and highly mechanized, although average farm size has been increasing. While the number of farms of 2 ha (5 acres) or more fell from 10,570 in 1950 to 2,314 in 2001, the average holding increased from 13.16 to 55.17 ha (from 32.52 to 136.3 acres) over the same period. Crop production in 2001 included (in tons): corn, 118,586; forage crops, 129,272; bread grains, 58,825; potatoes, 22,770; and pulses, 2,277.

Vineyards including Ehnen, Stadtbredmis, and Bech-Kleinmacher are located in the Moselle River Valley. In 1998/99, wine production totaled 15.97 million liters, consisting of Rivaner, Elbling, Auxerrois, Riesling, Pinot blanc, and Pinot gris. Wine and clover seeds are the important agricultural exports. In addition, millions of rosebushes, a major speciality crop, are exported annually. Chief fruits produced include apples, plums, and cherries.

## 23 ANIMAL HUSBANDRY

Livestock breeding is relatively important, particularly because of Luxembourg's dairy product exports. In 2001, livestock included 205,193 head of cattle, 78,540 pigs, 8,476 sheep, and 3,126 equines. A total of 27,200 tons of meat, and 265,900 tons of milk were produced in 2001.

## 24 FISHING

There is some commercial fishing for domestic consumption and much private fishing for sport. The rivers teem with perch, carp, trout, pike, eel, and bream.

## 25 FORESTRY

About 88,620 ha (218,980 acres) were covered by forests in 2000, of which 53% was private forest. Forestry production in 2000 included 191,716 cu m (6.7 million cu ft) of round wood from broad-leaved trees and 163,504 cu m (5.8 million cu ft) from conifers. Chief commercial woods are spruce and oak.

## 26 MINING

In 2001, Luxembourg's mineral industry consisted primarily of raw materials processing, information systems, and mineral trading. The iron and steel industry was the most important mineral industry sector, ranking second among the nation's top industries in 2002; steel products ranked second among export commodities. Mining in Luxembourg was represented by small industrial mineral operations that produced material for domestic construction, including cement manufacture. These minerals included anhydrite, dimension stone, dolomite, gypsum, limestone, Thomas slag phosphates, sand and gravel, and slate. Chemicals ranked third among export commodities in 2002, and

the manufacture of chemicals, metal products, glass, and aluminum were among the nation's leading industries. Luxembourg's traditional source of mineral wealth was iron ore, concentrated between Redange and Dudelange. Because of mine depletion, production declined from 2.08 million tons in 1976, to 429,000 in 1981, when the last iron mines were closed.

## 27 ENERGY AND POWER

Total installed capacity in 2001 was 127 MW, of which about one-fourth was hydroelectric. Production of electrical energy in 2000 amounted to 467.7 million kWh, of which 57.5% was from fossil fuels, 25.7% from hydropower, and the rest from other renewable sources. Consumption of electricity in 2000 was 6.2 billion kWh. Electrical production has increased since the dams at Esch-sur-Sûre and Rosport were completed. The hydroelectric plant at Vianden has the largest pumping station in Europe. Virtually all of the country's hydroelectric potential has now been put to use. The steel industry consumes 80% of total industrial energy demand.

## 28 INDUSTRY

Massive restructuring of the steel industry and continuing diversification of the industrial base characterized the 1980s. Under the ongoing industrial diversification program, more than 80 new firms were launched between 1960 and 1985, providing jobs for 10,332 people. Chemicals, rubber, metal processing, glass, and aluminum became increasingly important, while some other industries, including construction, remained depressed; traditional light industries such as tanneries, glove-making plants, and textile mills were forced either to close down or to greatly reduce their scale of operations.

In 1997, steel was responsible for 29% of all exports. Production of steel was 2,613,000 tons in 1995 (5,462,000 tons in 1970); rolled steel products, 3,709,000 tons (4,252,000 tons in 1970). Luxembourg's blast furnaces and steel mills are located in the Bassin Minier of the southwest. Mergers have given ARBED, a private multinational firm with significant government shareholding, virtually complete control of the steel industry. A merger with France's USINOR and Spain's ACERALIA in 2001 made ARBED the world's largest steel producer; it was renamed "NEWCO" temporarily, and was searching for niche markets for highly specialized steel products.

In recent years, Luxembourg has diversified its industrial production away from steel, producing chemicals, medical products, rubber, tires, glass, and aluminum. The financial sector has compensated for the decline in steel production, and other service-sector growth areas in 2002 were cargo shipping, satellite transmission, and television and radio broadcasting.

## 29 SCIENCE AND TECHNOLOGY

The Grand Ducal Institute, the central learned society, includes medical and scientific sections. The Society of Luxembourg Naturalists, founded in 1890, had 575 members in 1996. Two public research centers conduct research on health and applied science. The University Center of Luxembourg, founded in 1969, has a sciences department. The Higher Institute of Technology, founded in 1979, offers courses in engineering and computing. Société Européenne des Satellites at Betzdorf is the control center for a group of satellites important to Europe's broadcasting industry.

## 30 DOMESTIC TRADE

The commercial code is similar to that of Belgium and trade practices are nearly identical. The city of Luxembourg is the headquarters for the distribution of imported goods within the country and Antwerp in Belgium is the principal port of entry. Consequently, manufacturers' agents and importers maintain offices in one or both of those cities. The commercial laws and

solid economic base are highly attractive to foreign investors. About 30% of the work force are foreign workers, many of whom are commuters from neighboring countries. French, German, and English are the languages of business correspondence. Advertising is extensive, particularly in newspapers and on Radio-Télé-Luxembourg.

Most shops and stores are open 9 AM to 6 PM Monday through Friday. Banking hours are on weekdays, 9 AM to 4:30 PM. Private business hours are usually from 8 AM to 5 PM.

### 31 FOREIGN TRADE

Luxembourg remains dependent on foreign trade, even though domestic demand has become an increasingly important factor in fueling the economy. The nation's trade position has weakened with the decline of the steel industry: between 1974 and 1981, imports grew by 55% while exports rose only 7%, as the trade balance swung into deficit. Between 1985 and 1992, imports grew by 42% and exports rose only 24%.

Trade with European nations accounted for 88.6% of imports and 88.7% of exports in 2000. With 23% of the total export volume in 2000, Germany was Luxembourg's biggest customer. Luxembourg imported more goods from Belgium (35%) than any other country.

Principal trading partners in 2000 (in millions of US dollars) were as follows:

	EXPORTS	IMPORTS	BALANCE
Germany	1,746	2,381	-635
France	1,569	1,280	289
Belgium	965	3,565	-2,600
United Kingdom	552	298	254
Italy	408	183	225
Netherlands	405	485	-80
United States	286	692	-406
Spain	207	71	136
Switzerland	107	264	-157
Austria	106	94	12

### 32 BALANCE OF PAYMENTS

Luxembourg enjoyed a favorable trade balance from 1951 until 1975, when rising energy costs and structural weakness in the steel industry led to deterioration in terms of trade. The overall balance of payments has, however, tended to show a surplus, mainly because of income from banking services. The levels of imports and exports remain relatively stable, with the level of imports fluctuating significantly only when large capital purchases are made in the aviation sector.

The US Central Intelligence Agency (CIA) reports that in 2000 the purchasing power parity of Luxembourg's exports was \$7.85 billion while imports totaled \$10.25 billion resulting in a trade deficit of \$2.4 billion.

The International Monetary Fund (IMF) reports that in 2001 Luxembourg had exports of goods totaling \$9 billion and imports totaling \$11.4 billion. The services credit totaled \$19.9 billion and debit \$13.7 billion. The following table summarizes Luxembourg's balance of payments as reported by the IMF for 2001 in millions of US dollars.

Current Account	1,674
Balance on goods	-2,399
Balance on services	6,237
Balance on income	-1,639
Current transfers	-524
Capital Account	...
Financial Account	...
Direct investment abroad	...
Direct investment in Luxembourg	...
Portfolio investment assets	...
Portfolio investment liabilities	...
Other investment assets	...
Other investment liabilities	...
Net Errors and Omissions	...
Reserves and Related Items	...

### 33 BANKING AND SECURITIES

Banking has been gaining in importance since the 1970s and has become the most significant part of the economy; by 1998, banking and insurance employed about 15% of the total workforce. The principal bank and the sole bank of issue is the International Bank of Luxembourg (*Banque Internationale à Luxembourg*), founded in 1856. The Belgium-Luxembourg monetary agreement, as renewed for 10 years in 1991, provided for the establishment of the Luxembourg Monetary Institute to represent the nation at international monetary conferences and institutions. The banking sector has benefited from favorable laws governing holding companies. The European Investment Bank, the European Court of Auditors (both EU institutions), and the European Monetary Fund are headquartered in Luxembourg, as are all of the big six accounting firms. As a financial center, Luxembourg has the advantages of strict banking secrecy, a trained multilingual workforce, and a government that is sympathetic to the sector's needs. These last two factors are proving attractive to the developing cross-border insurance business. In addition, a strict 1992 law aimed at combating money laundering reinforces Luxembourg's reputation as a corrupt-free environment. The financial sector is currently active in three main areas: the Eurobond market, investment funds, and the developing cross-border life insurance market.

Faced with the impossibility of raising the capital for its steel industry alone, Luxembourg has always been open to the financial world. But its current success in the field owes more to legislation in neighboring countries and external economic factors than to any deliberate policy on the part of the government.

The Euro-markets have made Luxembourg the home of Cedel Bank, one of the two international clearing and settlement depositories. In 2001 this group recorded a consolidated gross operating income of 979.5 million euros and a pretax operating profit of 113.4 million euros. In 1999, Cedel and Deutsche Börse Clearing announced a merger. The new company is called Cedel International and will serve as a single European clearing organization.

Luxembourg controls about 90% of Europe's offshore investment funds, making it the fourth largest world market. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$46.0 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small scale time deposits, and money market mutual funds—was \$139.4 billion.

The Luxembourg Bourse, founded in 1929 in the city of Luxembourg, primarily handles stocks and bonds issued by domestic companies, although it also lists Belgian securities. The exchange was closed down on 10 May 1940. Dealing resumed but was limited to domestic and German securities. The exchange was again closed down when the country was liberated and did not reopen until October 1945.

### 34 INSURANCE

Third-party liability insurance is compulsory for all automobile owners, as is insurance for nuclear operators, hunters, hotel operators, boats, and aircraft. Domestic insurance companies issue both life and nonlife policies. The Third European Life Directive has permitted life companies to operate in any European Union (EU) country while still being controlled by domestic regulations. As of 1996, 23 subsidiaries of leading European companies had been set up in Luxembourg, attracted by the availability of skilled staff and the proximity to major European markets. Direct premiums written in 2001 grew to US\$5.62 billion, with US\$775 of the total comprised of nonlife premiums and US\$4.845 comprised of life insurance premiums.

The *Commissariat aux Assurances* regulates insurance companies in Luxembourg.

### 35 PUBLIC FINANCE

The budget of the Luxembourg government is presented to the Chamber of Deputies late in each calendar year and becomes effective the following year. Government finances are generally strong, and budgets are usually in surplus.

The US Central Intelligence Agency (CIA) estimates that in 2002 Luxembourg's central government took in revenues of approximately \$5.5 billion and had expenditures of \$5.5 billion including capital expenditures of \$760 million.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	102.3%	5,629
Tax revenue	91.6%	5,036
Non-tax revenue	8.0%	438
Capital revenue	0.2%	10
Grants	2.6%	144
EXPENDITURES	100.0%	5,671
General public services	10.2%	562
Defense	1.9%	107
Public order and safety	1.7%	96
Education	10.3%	566
Health	2.3%	124
Social security	52.3%	2,878
Housing and community amenities	3.1%	169
Recreation, cultural, and religious affairs	1.6%	90
Economic affairs and services	13.3%	732
Other expenditures	5.9%	327
Interest payments	0.4%	20

### 36 TAXATION

Luxembourg has come under pressure to share information on the interest paid on the hither-to-secret savings accounts maintained by non-residents. In June 2003, the EU Commissioners issued a directive that would allow Luxembourg (as well as Belgium and Austria) to apply increased withholding taxes in lieu of directly sharing information on the interest tax paid on these accounts. Withholding rates of 15% to 20% would be applied 2004 to 2007, rising to 25% 2007 to 2009, and to 35% after 2009. The US Bush administration stood opposed to these EU initiatives to deal with tax evasion on the grounds that they would eliminate useful "tax competition."

Luxembourg's corporate income tax (IRC) rate in 2003 was 22.88%, which includes a 4% employment fund contribution. Companies are also subject to municipal taxes of 7.5%, bringing the effective tax rate to 30.88%. Business enterprises not subject to the IRC are subject to municipal taxes of about 6.98%, though the regional rates vary. Prior to 2002 the municipal tax was deductible for corporate tax purposes. Capital gains are taxed as ordinary income, although some capital gains are tax-exempt. Dividends paid to non-residents are subject to 25% withholding unless the payments are to a parent company resident in the EU that owns at least 25% of the subsidiary paying dividends. Subsidiaries of foreign companies are considered resident companies ("capital societies") and are taxed at the same rate.

Personal income in Luxembourg is taxed according to a progressive schedule with rates from 0% (below €9,667 in 2002) to 38.95% (as of 1 January 2002) on increments above €33,614. Social security taxes total 21.86%, 11.65% paid by the employer and 10.65% by the employee. There is also a wealth tax of 0.5%. There is no inheritance tax for direct descendants; for others, the

tax is 15%. Gift taxes range from 1.5% to 27.11%, and rights of recordings are taxed from 0% to 14.4%.

The main indirect tax is Luxembourg's value-added tax (VAT), introduced 1 January 1970 with a standard rate of 8% and a reduced rate of 4%. Revisions as of 10 January 1992 instituted a standard rate of 15% with reduced rates of 3 and 6%, and a "parking" (intermediate) rate of 12% (applied mainly to petroleum products and electricity). The 3% rate is applied to foodstuffs, newspapers, books, and periodicals, medicines and medical equipment, medical and dental care, and other basic goods and services. The 6% rate is applied mainly to repair and domestic services.

### 37 CUSTOMS AND DUTIES

Tariff policies have been traditionally liberal. Luxembourg adheres to the trade regulations of the European Union. Luxembourg levies its own 15% value-added tax on imports if their final destination is Luxembourg. Non-tariff barriers exist also in the form of health, safety, and packaging regulations.

### 38 FOREIGN INVESTMENT

Foreign capital investment in Luxembourg has traditionally been small. In recent years, however, US investments have risen substantially, with the value of direct investments in manufacturing alone in excess of \$1 billion in 1993. Moderate-sized investments by Luxembourg firms have been made in Germany, France, Belgium, and South American countries. To encourage private investment from abroad, the government grants tax relief for up to 10 years in certain cases. Profits from investment may be transferred out of the country and invested capital may be repatriated with a minimum of regulation. Statistics on Luxembourg's inward and outward foreign investment are calculated and published in conjunction with Belgium's

### 39 ECONOMIC DEVELOPMENT

The keystone of the economic system is free enterprise, and the government has attempted to promote the well-being of private industry by every means short of direct interference. The full-employment policy pursued by every postwar government has produced a high ratio of economically active population to total population. Not only is the population economically active, it is also highly skilled, a fact not overlooked by foreign companies seeking to invest. The government encourages the diversification of industry by tax concessions and other means. Luxembourg's successful economy continues to attract immigrants; the immigrant population comprises over one-third of the Grand Duchy's total.

Banking has become an important sector of the economy, compensating for a decline in the steel industry. Successive governments have taken steps to encourage foreign investment, and investment incentives cover taxes, construction, and plant equipment. Government priorities in 2002 included balancing the budget, keeping spending growth in line with GDP growth, and running a general government surplus. The government was enacting tax cuts in 2002, and increased spending in infrastructure, research and development, education, and pension benefits. Obstacles were removed to part-time employment, more flexible working time arrangements were made, and child care facilities were expanded.

### 40 SOCIAL DEVELOPMENT

An extensive system of social insurance covers virtually all employees and their families. Sickness, maternity, old age, disability, and survivors' benefits are paid, with both employee and employer contributing and the government absorbing part of the cost. Birth, maternity, child and education allowances are also

provided to all residents. Parental leave and child-rearing allowances are available as well.

Women are well represented in politics and the professions. Although legally entitled to equal pay for equal work, in practice women's salaries are somewhat lower than men's for comparable work. Violence against women is taken seriously by the authorities, and most abusers are prosecuted. The Ministry for the Promotion of Women is charged with ensuring equal opportunities for women. Children's rights are fully protected and the government amply funds systems providing education and health care.

Human rights are fully respected in Luxembourg.

#### 41 HEALTH

Luxembourg has an advanced national health service, supervised by the Ministry of Public Health. Public health facilities are available to physicians and treatment of patients is on a private basis. Hospitals are operated either by the state or by the Roman Catholic Church.

In the mid-1990s, there were 780 physicians (295 general practitioners and 485 specialists, which equates to two physicians per 1,000 inhabitants), 307 pharmacists, 198 dentists, and 124 midwives. In the same period, there were 32 hospitals with 4,438 beds (11.4 per 1,000 people). As of 1998, there were 2.7 physicians, 7.8 nurses, 0.2 midwives, 0.7 dentists, and 0.7 pharmacists per 1,000 people. Public health officials have waged efficient national campaigns against contagious diseases and infant mortality has been reduced from 56.8 per 1,000 live births in 1948 to an estimated 4.7 as of 2002.

Between 1991 and 1994, 80% of the country's children were immunized against measles. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 12 and 8.8 per 1,000 people. The fertility rate was one of the lowest in the world. The average woman living through her childbearing years had 1.5 children. Average life expectancy was estimated at 77.5 years. There were 4,021 deaths in 1992, with leading causes as follows: circulatory/heart diseases (1,686), cancer (996), road accidents (76), and suicides (59). There were 107 cases of AIDS in 1996, for an incidence of approximately 3.5 of 100,000 people.

The smoking rate was nearly equal for men (32% of men over 15) and women (26%) in the mid-1990s. The age-adjusted breast cancer mortality rate per 100,000 people was 25.6 during the years 1986–88. This rate was in the top ten mortality rates for breast cancer.

#### 42 HOUSING

The immediate post-World War II housing shortage created by the considerable war damage has been alleviated by substantial construction of private homes and apartment buildings. The government has helped by making home loans at low interest rates available to buyers. In 1981 there were 128,281 private households in Luxembourg. Detached houses accounted for 60% of all housing units, apartments for 32% and farms for 4%. Owners occupied 60% of all dwellings, 40% were rented, 4% were occupied rent free, and 3% were occupied by a subtenant. From 1991–1999, over 7,000 new dwellings were completed. Housing satisfaction is one of the highest in the European Union.

#### 43 EDUCATION

There is virtually no adult illiteracy. School attendance is compulsory between the ages of 6 and 15. Pupils attend primary schools for six years and then enter secondary schools for a period of up to seven years. In 1997, primary school enrollment totaled 28,437 elementary pupils with 1,844 teachers. Student-teacher ratio stood at 15 to 1. In the same year, 28,796 children were enrolled in secondary schools, with 2,836 teachers. As of 1999, 96% of primary-school-age children were enrolled in school, while 82% of those eligible attended secondary school.

Post-secondary institutions in Luxembourg include the Central University of Luxembourg (founded in 1969), Superior Institute of Technology, and teacher training schools. However, most advanced students attend institutions of higher learning in Belgium and France. From 1994 to 1995, 3,309 students were at foreign universities, including 1,226 in Belgium and 754 in France.

#### 44 LIBRARIES AND MUSEUMS

The National Library in Luxembourg is the largest in the country, with 650,000 volumes. Other major libraries belong to the Centre Universitaire (120,000 volumes), the European Community Court of Justice (120,000), the Abbey of St. Maurice at Clervaux (100,000), the Seminary of Luxembourg (110,000), and the European Parliament (150,000). The Grand Ducal Institute maintains a few specialized collections in the city of Luxembourg, as does the government. In Esch-sur-Alzette the public library has close to 66,000 volumes and features a special collection of Luxembourgensia.

The National Museum of History and Art (founded in 1845) exhibits fine arts as well as the history of Luxembourg. The city of Luxembourg also hosts the Museum of Natural History, founded in 1988 and moved to a new building in 1996, the year that the Museum of the History of Luxembourg opened in the same city. The home where the 19th-century French writer Victor Hugo lived as an exile is in Vianden, and there is a museum of wine in Ehren.

#### 45 MEDIA

Telephone, telegraph, and postal services are owned and operated by the government; in 1999 there were 314,700 main line telephones in use and 215,741 mobile cellular phones. Direct-dial telephone service is in use throughout the country, and includes efficient international service. Telegraph service is also widely available.

Radio-Télé-Luxembourg broadcasts on five radio channels (in Letzeburgesch, French, German, English, and Dutch) and two television channels (Letzeburgesch and French). The powerful commercial network reaches not only the domestic audience but millions of French, Germans, and other Europeans. In 1999 there were 2 AM and 9 FM radio stations and 5 television stations. In 1997, there were 285,000 radios and about 285,000 television sets. In 2000, there were eight Internet service providers, who by 2001 served 100,000 users.

As of 2001, there are six daily and two weekly newspapers. The daily press is small in circulation but has high standards. Luxembourg does not have an independent news agency of its own but relies on foreign news agencies for information. The most popular dailies in 2002 were the *Luxemburger Wort* (German and French, circulation 87,777); *Tageblatt* (German and French) (29,469); and *La Républicaine Lorraine* (French) (15,000). The weekly *Telecran* had a 2002 circulation of 45,000.

The law provides for freedom of speech and the press, and the government is said to uphold these provisions in practice.

#### 46 ORGANIZATIONS

The principal agricultural organization is Centrale Paysanne Luxembourgaise, under which are grouped all producer cooperatives and other farmers' societies. Organizations promoting the interests of industry include federations of artisans, manufacturers, merchants, and winegrowers. The Luxembourg Chamber of Commerce is active in representing local business interests. The Luxembourg Confederation of Christian Trade Unions promotes worker's rights for all. The Christian Social Women organization promotes women's rights and encourages political participation. Scouting programs are active for youth. Kiwanis and Lions clubs also have programs in

the country. International organizations with active chapters include the Red Cross, Amnesty International, and Greenpeace.

#### 47 TOURISM, TRAVEL, AND RECREATION

Picturesque Luxembourg, with approximately 130 castles, has long been a tourist attraction. Among the points of greatest attraction are Vianden; Clervaux, with its castle of the De Lannoï family, forebears of Franklin Delano Roosevelt; the famous abbey of Clervaux; Echternach, an ancient religious center; the Moselle region; and the fortifications of the capital. Popular sports for both residents and visitors include swimming, hiking, rock climbing, cycling, and golf. More than 5,000 American soldiers are buried at the American Military Cemetery near the capital, including Gen. George S. Patton.

Most visitors from Western Europe and the US require a passport, but no visas are necessary for stays of less than three months. There are no restrictions on foreign currency exchanges by visitors.

In 2000, there were about 807,000 visitor arrivals. The country had about 7,708 hotel rooms. The average cost of staying in Luxembourg, according to 2002 US government estimates, was \$186 per day.

#### 48 FAMOUS LUXEMBOURGERS

Count Sigefroid founded the nation in 963, and Countess Ermesinde (r.1196–1247) tripled the extent of the country. Other outstanding historical personages are Henry VII of Luxembourg (c.1275–1313), who became Holy Roman emperor in 1308; his son John the Blind (1296–1346), count of Luxembourg (1309–46) and king of Bohemia (1310–46), a national hero; and the latter's son Charles (1316–78), who became Holy Roman emperor as Charles IV (1346–78). Grand duke from 1890 to 1905 was Adolphe (1817–1905), one-time duke of Nassau

(1839–66) and the founder of the present dynasty, the house of Nassau-Weilbourg, whose origins go back to 1059.

Joseph Bech (1887–1975), prime minister from 1926 to 1937 and from 1953 to 1958, served as foreign minister for 33 years. Luxembourg-born Robert Schuman (1886–1963), French premier (1947–48) and foreign minister (1948–53), was a key figure in the postwar movement for West European integration. Grand Duchess Charlotte (1896–1985) abdicated in 1964 in favor of her son Grand Duke Jean (b.1921), who has reigned since then; the heir apparent is Crown Prince Henri (b.1955).

An artist of note was painter Joseph Kutter (1894–1941). Gabriel Lippmann (1845–1921) was awarded the Nobel Prize in physics (1908) for his pioneering work in color photography.

#### 49 DEPENDENCIES

Luxembourg has no territories or colonies.

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# MACEDONIA

Former Yugoslav Republic of Macedonia  
*Republika Makedonija*

**CAPITAL:** Skopje

**FLAG:** The flag consists of a gold sun with eight rays on a red field.

**ANTHEM:** *Denec Nad Makedonija (Today over Macedonia)*

**MONETARY UNIT:** The currency in use is the denar (DEN). Denominations from smallest to largest are fifty deni, one denar, two denari, and five denari. In May 2003, US\$1 = DEN55.56 (or DEN1 = US\$0.0179), but exchange rates are likely to fluctuate.

**WEIGHTS AND MEASURES:** The metric system is in effect in Macedonia.

**HOLIDAYS:** Orthodox Christmas, 7 January; national holiday, 2 August; Day of Referendum, 8 September.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Macedonia is a landlocked nation located in southeastern Europe. Macedonia is slightly larger than the state of Vermont with a total area of 25,333 sq km (9,781 sq mi). Macedonia shares boundaries with Serbia and Montenegro (north), Bulgaria (east), Greece (south), and Albania (west), and has a total boundary length of 766 km (476 mi). Macedonia's capital city, Skopje, is located in the northwestern part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Macedonia features a mountainous landscape covered with deep basins and valleys. There are two large lakes, each divided by a frontier line. Approximately 24% of Macedonia's land is arable. Natural resources include chromium, lead, zinc, manganese, tungsten, nickel, low-grade iron ore, asbestos, sulphur, and timber. Macedonia's natural environment suffers from a high seismic hazard and air pollution from metallurgical plants.

## <sup>3</sup>CLIMATE

Macedonia's climate features hot summers and cold winters. Fall tends to be dry in the country. In July the average temperature is between 20 and 23°C (70 and 73°F). The average temperature in January is between -20 and 0°C (-4 and 32°F). Rainfall averages 51 cm (20 in) a year. Snowfalls can be heavy in winter.

## <sup>4</sup>FLORA AND FAUNA

The terrain of Macedonia is rather hilly. Between the hills are deep basins and valleys, populated by European bison, fox, rabbits, brown bears, and deer. Ducks, turtles, frogs, raccoons, and muskrats inhabit the country's waterways.

## <sup>5</sup>ENVIRONMENT

Air pollution from metallurgical plants is a problem in Macedonia, as in the other former Yugoslav republics. In 1996, industrial carbon dioxide emissions totaled 12.7 million metric tons. All urban dwellers have access to safe drinking water. Earthquakes are a natural hazard. Forest and woodland cover

30% of the nation's land area. As of 2001, approximately 7.1% of Macedonia's total land area was protected, including one World Heritage Site and one Wetland of International Importance. As of 2001, the list of threatened species included 10 types of mammals and 3 types of bird. Endangered species include the field adder, Apollo butterfly, and noble crayfish.

## <sup>6</sup>POPULATION

The population of the Former Yugoslav Republic of Macedonia in 2003 was estimated by the United Nations at 2,055,000, which placed it as number 140 in population among the 193 nations of the world. In that year approximately 10% of the population was over 65 years of age, with another 22% of the population under 15 years of age. There were an equal number of males and females in the country in 2003. According to the UN, the annual population growth rate for 2000-2005 is 0.51%, with the projected population for the year 2015 at 2,160,000. The population density in 2002 was 80 per sq km (206 per sq mi). The lowlands are the most populated regions in the country.

It was estimated by the Population Reference Bureau that 62% of the population lived in urban areas in 2001. The capital and largest city, Skopje, had a population of 485,000 in that year. Most towns have fewer than 15,000 residents. According to the United Nations, the urban population growth rate for 2000-2005 was 1.2%.

## <sup>7</sup>MIGRATION

In February 1999, violence in Kosovo forced more than 10,000 refugees to flee to Macedonia. The situation reached an emergency level when hundreds of thousands of refugees were arriving in late March and early April. By early June, the refugee population had grown to some 260,000. Macedonia did not have sufficient resources to cope with an emergency of this magnitude. At the government's request, some third-country asylum nations enacted bilateral evacuation programs, independently of UNHCR. Also, a joint UNHCR/IOM Humanitarian Evacuation Programme was established, under which more than 90,000 refugees were evacuated from Macedonia to 29 countries. A

Humanitarian Transfer Programme was also organized to set up camps in Albania for 1,300 refugees.

The net migration rate for Macedonia in 2000 was -0.83 migrants per 1,000 population. The total number of migrants that year was 626,000, including 484,400 refugees. The government views the migration levels as too high.

## **8 ETHNIC GROUPS**

According to the most recent estimates (1994), Macedonians comprise about 66% of the population. Another 23% are ethnic Albanians, mostly living in the west, particularly the northwest. Other groups include Turks (4%), Roma (Gypsies, 3%), Serbs (2%), and others (2%).

## **9 LANGUAGES**

Macedonian is a southern Slavic tongue that was not officially recognized until 1944, and is the primary language of 70% of the population. Bulgarians claim it is merely a dialect of their own language. As in Bulgarian, there are virtually no declensions and the definite article is suffixed. Also as in Bulgarian—and unlike any other Slavic language—an indefinite article exists as a separate word. It is written in the Cyrillic alphabet, but with two special characters—*r* and *k*. Minority languages are officially recognized at the local level. Albanian is spoken by about 21% of the population, Turkish by about 3% Serbo-Croatian by 3% and various other languages by 3%.

## **10 RELIGIONS**

Based on 1998 estimates, about 66% of the population are nominally Macedonian Orthodox; another 30% are Muslim; 1% are Roman Catholic; and about 3% belong to various other faiths. The other faiths are mostly various Protestant denominations. Islam is commonly practiced among ethnic Albanians living primarily in the western part of the country and in the capital of Skopje. The Roman Catholic community is centered in Skopje as is a small Jewish community.

## **11 TRANSPORTATION**

A railway connects Skopje with Serbia to the north and the Greek port of Salonika to the south. In 2002, rail trackage totaled 699 km (434 mi) of standard gauge track, of which 233 km (144 mi) were electrified. Also in 2002, a 56 km (35 mi) extension of the Kumanovo-Beljakovce line to the Bulgarian border at Gyueshevo was under construction. In 2001, there were 8,684 km (5,396 mi) of highways, of which 5,540 km (3,442 mi) were paved, including 133 km (83 mi) of expressways.

There were 17 airports in 2001, including 10 with paved runways. In 2001, 315,500 passengers were carried on scheduled domestic and international flights.

## **12 HISTORY**

### **Origin and Middle Ages**

Macedonia is an ancient name, historically related to Philip II of Macedon, whose son became Alexander the Great, founder of one of the great empires of the ancient world. As a regional name, Macedonia, the land of the Macedons, has been used since ancient Greek times for the territory extending north of Thessaly and into the Vardar River Valley and between Epirus on the west and Thrace on the east. In Alexander the Great's time, Macedonia extended west to the Adriatic Sea over the area then called Illyris, part of today's Albania. Under the Roman Empire, Macedonia was extended south over Thessaly and Achaia.

Beginning in the 5th century AD Slavic tribes began settling in the Balkan area, and by 700 they controlled most of the Central and Peloponnesian Greek lands. The Slavic conquerors were mostly assimilated into Greek culture except in the northern Greek area of Macedonia proper and the areas of northern

Thrace populated by "Bulgarian" Slavs. That is how St. Cyril and Methodius, two Greek brothers and scholars who grew up in the Macedonian city of Salonika, were able to become the "Apostles of the Slavs," having first translated Holy Scriptures in 863 into the common Slavic language they had learned in the Macedonian area.

Through most of the later Middle Ages, Macedonia was an area contested by the Byzantine Empire, with its Greek culture and Orthodox Christianity, the Bulgarian Kingdom, and particularly the 14th century Serbian empire of Dušan the Great. The Bulgarian and Serbian empires contributed to the spread of Christianity through the establishment of the Old Church Slavic liturgy.

After Dušan's death in 1355 his empire collapsed, partly due to the struggle for power among his heirs and partly to the advances of the Ottoman Turks. Following the defeat of the Serbs at the Kosovo Field in 1389, the Turks conquered the Macedonian area over the next half century and kept it under their control until the 1912 Balkan war.

### **Under Ottoman Rule**

The decline of the Ottoman Empire brought about renewed competition over Slavic Macedonia between Bulgaria and Serbia. After the Russo-Turkish war of 1877 ended in a Turkish defeat, Bulgaria, an ally of Russia, was denied the prize of the Treaty of San Stefano (1878) in which Turkey had agreed to an enlarged and autonomous Bulgaria that would have included most of Macedonia. Such an enlarged Bulgaria—with control of the Vardar River Valley and access to the Aegean Sea—was, however, a violation of a prior Russo-Austrian agreement. The Western powers opposed Russia's penetration into the Mediterranean through the port of Salonika and, at the 1878 Congress of Berlin, forced the "return" of Macedonia and East Rumelia from Bulgaria to Turkey. This action enraged Serbia, which had fought in the war against Turkey, gained its own independence, and hoped to win control of Bosnia and Herzegovina, which had been given over to Austrian control, for itself.

In this situation both Serbia and Bulgaria concentrated their efforts on Macedonia, where Greek influence had been very strong through the Greek Orthodox Church. The Bulgarians obtained their own Orthodox Church in 1870, that extended its influence to the Macedonian area and worked in favor of unification with Bulgaria through intensive educational activities designed to "Bulgarize" the Slavic population. Systematic intimidation was also used, when the Bulgarians sent their terrorist units ("Komite") into the area. The Serbian side considered Macedonia to be Southern Serbia, with its own dialect but using Serbian as its literary language. Serbian schools predated Bulgarian ones in Macedonia and continued with their work.

While individual instances of Macedonian consciousness and language had appeared by the end of the 18th century, it was in the 1850s that "Macedonists" had declared Macedonia a separate Slavic nation. Macedonian Slavs had developed a preference for their central Macedonian dialect and had begun publishing some writings in it rather than using the Bulgaro-Macedonian version promoted by the Bulgarian Church and government emissaries. Thus, Macedonia, in the second half of the 19th century, while still under the weakening rule of the Turks, had become the object of territorial and cultural claims by its Greek, Serb, and Bulgarian neighbors. The most systematic pressure had come from Bulgaria and had caused large numbers of "Bulgaro-Macedonians" to emigrate to Bulgaria—some 100,000 in the 1890s—mainly to Sophia, where they constituted almost half the city's population and an extremely strong pressure group.

### Struggle for Autonomy

More and more Macedonians became convinced that Macedonia should achieve at least an autonomous status under Turkey, if not complete independence. In 1893, a secret organization was formed in Salonika aiming at a revolt against the Turks and the establishment of an autonomous Macedonia. The organization was to be independent of Serbia, Bulgaria, and Greece and was named the Internal Macedonian Revolutionary Organization (IMRO), a group that became Socialist, revolutionary, and terrorist in nature. Much like Ireland's IRA, IMRO spread through Macedonia and became an underground para-governmental network active up to World War II. A pro-Bulgarian and an independent Macedonian faction soon developed, the first based in Sophia, the second in Salonika. Its strong base in Sophia gave the pro-Bulgarian faction a great advantage and it took control and pushed for an early uprising in order to impress the Western powers into intervening in support of Macedonia.

The large scale uprising took place on 2 August 1903 (Ilinden—"St. Elijah's Day") when the rebels took over the town of Kruševo and proclaimed a Socialist Republic. After initial defeats of the local Turkish forces, the rebels were subdued by massive Ottoman attacks using scorched earth tactics and wholesale massacres of the population over a three-month period. Europe and the United States paid attention and forced Turkey into granting reforms to be supervised by international observers. However, the disillusioned IMRO leadership engaged in factional bloody feuds that weakened the IMRO organization and image. This encouraged both Serbs and Greeks in the use of their own armed bands—Serbian "Cetniks" and Greek "Andarte"—creating an atmosphere of gang warfare in which Bulgaria, Serbia, and Greece fought each other (instead of the Turks) over a future division of Macedonia. In the meantime, the Young Turks movement had spread among Turkish officers and military uprisings began in Macedonia in 1906. These uprisings spread and Turkish officers demanded a constitutional system. They believed that Turkey could be saved only by Westernizing. In 1908 the Young Turks prevailed, and offered to the IMRO leadership agrarian reforms, regional autonomy, and introduction of the Macedonian language in the schools. However, the Young Turks turned out to be extreme Turkish nationalists bent on the assimilation of other national groups. Their denationalizing efforts caused further rebellions and massacres in the Balkans. Serbia, Greece, Bulgaria, and Montenegro turned for help to the great powers, but to no avail. In 1912 they formed the Balkan League, provisionally agreed on the division of Turkish Balkan territory among themselves, and declared war on Turkey in October 1912 after Turkey refused their request to establish the four autonomous regions of Macedonia—Old Serbia, Epirus, and Albania—already provided for in the 1878 Treaty of Berlin.

### Balkan Wars

The quick defeat of the Turks by the Balkan League stunned the European powers, particularly when Bulgarian forces reached the suburbs of Istanbul. Turkey signed a treaty in London on 30 May 1913 giving up all European possessions with the exception of Istanbul. However, when Italy and Austria vetoed a provision granting Serbia access to the Adriatic at Durazzo and Alessio and agreed to form an independent Albania, Serbia demanded a larger part of Macedonia from Bulgaria. Bulgaria refused and attacked both Serbian and Greek forces. This caused the second Balkan War that ended in a month with Bulgaria's defeat by Serbia and Greece with help from Romania, Montenegro, and Turkey. The outcome was the partitioning of Macedonia between Serbia and Greece. Turkey regained the Adrianople area it had lost to Bulgaria. Romania gained a part of Bulgarian Dobruja while Bulgaria kept a part of Thrace and the Macedonian town of



LOCATION: 41°50' N; 22°0' E. BOUNDARY LENGTHS: Total boundary lengths, 748 kilometers (465 miles); Albania, 151 kilometers (94 miles); Bulgaria, 148 kilometers (92 miles); Greece, 228 kilometers (142 miles); Serbia and Montenegro, 221 kilometers (137.3 miles).

Strumica. Thus Southern Macedonia came under the Hellenizing influence of Greece while most of Macedonia was annexed to Serbia. Both Serbia and Greece denied any Macedonian "nationhood." In Greece, Macedonians were treated as "slavophone" Greeks while Serbs viewed Macedonia as Southern Serbia and Serbian was made the official language of government and instruction in schools and churches.

### First and Second Yugoslavia

After World War I, the IMRO organization became a terrorist group operating out of Bulgaria with a nuisance role against Yugoslavia. In later years, some IMRO members joined the Communist Party and tried to work toward a Balkan Federation where Macedonia would be an autonomous member. Its interest in the dissolution of the first Yugoslavia led IMRO members to join with the Croatian Ustaša in the assassination of King Alexander of Yugoslavia and French Foreign Minister Louis Barthou in Marseilles on 9 October 1934. During World War II, Bulgaria, Hitler's ally, occupied the central and eastern parts of Macedonia while Albanians, supported by Italy, annexed western Macedonia along with the Kosovo region. Because of Bulgarian



control, resistance was slow to develop in Macedonia; a conflict between the Bulgarian and Yugoslav Communist parties also played a part. By the summer of 1943, however, Tito, the leader of the Yugoslav Partisans, took over control of the Communist Party of Macedonia after winning its agreement to form a separate Macedonian republic as part of a Yugoslav federation. Some 120,000 Macedonian Serbs were forced to emigrate to Serbia because they had opted for Serbian citizenship. Partisan activities against the occupiers increased and, by August 1944, the Macedonian People's Republic was proclaimed with Macedonian as the official language and the goal of unifying all Macedonians was confirmed. But this goal was not achieved. However, the "Pirin" Macedonians in Bulgaria were granted their own cultural development rights in 1947, and then lost them after the Stalin-Tito split in 1948. The Bulgarian claims to Macedonia were revived from time to time after 1948.

On the Greek side, there was no support from the Greek Communist Party for the unification of Macedonian Slavs within Greece with the Yugoslav Macedonians, even though Macedonian Slavs had organized resistance units under Greek command and participated heavily in the post-war Greek Communists' insurrection. With Tito's closing the Yugoslav-Greek frontier in July 1949 and ending his assistance to the pro-Cominform Greek Communists, any chance of territorial gains from Greece had dissipated. On the Yugoslav side, Macedonia became one of the co-equal constituent republics of the Federal Socialist Republic of Yugoslavia under the Communist regime of Marshal Tito. The Macedonian language became one of the official languages of Yugoslavia, along with Slovenian and Serbo-Croatian, and the official language of the Republic of Macedonia where the Albanian and Serbo-Croatian languages were also used. Macedonian was fully developed into the literary language of Macedonians, used as the language of instruction in schools as well as the newly established Macedonian Orthodox Church. A Macedonian University was established in Skopje, the capital city, and all the usual cultural, political, social, and economic institutions were developed within the framework of the Yugoslav Socialist system of self-management. The main goals of autonomy and socialism of the old IMRO organization were fulfilled, with the exception of the unification of the "Pirin" (Bulgarian) and "Greek" Macedonian lands.

All of the republics of the former Federal Socialist Republic of Yugoslavia share a common history between 1945 and 1991, the year of Yugoslavia's dissolution. The World War II Partisan resistance movement, controlled by the Communist Party of Yugoslavia and led by Marshal Tito, won a civil war waged against nationalist groups under foreign occupation, having secured the assistance, and recognition, from both the Western powers and the Soviet Union. Aside from the reconstruction of the country and its economy, the first task facing the new regime was the establishment of its legitimacy and, at the same time, the liquidation of its internal enemies, both actual and potential. The first task was accomplished by the 11 November 1945 elections of a constitutional assembly on the basis of a single candidate list assembled by the People's Front. The list won 90% of the votes cast. The three members of the "coalition" government representing the Royal Yugoslav Government in exile had resigned earlier in frustration and did not run in the elections. The Constitutional Assembly voted against the continuation of the Monarchy and, on 31 January 1946, the new constitution of the Federal People's Republic of Yugoslavia was promulgated. Along with state-building activities, the Yugoslav Communist regime carried out ruthless executions, massacres, and imprisonments to liquidate any potential opposition.

The Tito-Stalin conflict that erupted in 1948 was not a real surprise considering the differences the two had had about Tito's refusal to cooperate with other resistance movements against the occupiers in World War II. The expulsion of Tito from the

Cominform group separated Yugoslavia from the Soviet Bloc, caused internal purges of pro-Cominform Yugoslav Communist Party members, and also nudged Yugoslavia into a failed attempt to collectivize its agriculture. Yugoslavia then developed its own brand of Marxist economy based on workers' councils and self-management of enterprises and institutions, and became the leader of the non-aligned group of nations in the international arena. Being more open to Western influences, the Yugoslav Communist regime relaxed somewhat its central controls. This allowed for the development of more liberal wings of Communist parties, particularly in Croatia and Slovenia, which agitated for the devolution of power from the federal to the individual republic level in order to better cope with the increasing differentiation between the more productive republics (Slovenia and Croatia) and the less developed areas. Also, nationalism resurfaced with tensions particularly strong between Serbs and Croats in the Croatian Republic, leading to the repression by Tito of the Croatian and Slovenian "Springs" in 1970-71.

The 1974 constitution shifted much of the decision-making power from the federal to the republics' level, turning the Yugoslav Communist Party into a kind of federation (league) of the republican parties, thus further decentralizing the political process. The autonomous provinces of Vojvodina and Kosovo were also given a quasi-sovereign status as republics, and a collective presidency was designed to take over power upon Tito's death. When Tito died in 1980, the delegates of the six republics and the two autonomous provinces represented the interests of each republic or province in the process of shifting coalitions centered on specific issues. The investment of development funds to assist the less developed areas became the burning issue around which nationalist emotions and tensions grew ever stronger, along with the forceful repression of the Albanian majority in Kosovo.

The economic crisis of the 1980s, with runaway inflation, inability to pay the debt service on over \$20 billion in international loans that had accumulated during Tito's rule, and low productivity in the less-developed areas became too much of a burden for Slovenia and Croatia, leading them to stand up to the centralizing power of the Serbian (and other) Republics. The demand for a reorganization of the Yugoslav Federation into a confederation of sovereign states was strongly opposed by the coalition of Serbia, Montenegro, and the Yugoslav army. The pressure towards political pluralism and a market economy also grew stronger, leading to the formation of non-Communist political parties that, by 1990, were able to win majorities in multi-party elections in Slovenia and then in Croatia, thus putting an end to the era of the Communist Party monopoly of power. The inability of the opposing groups of centralist and confederalist republics to find any common ground led to the dissolution of Yugoslavia through the disassociation of Slovenia, Croatia, Bosnia and Herzegovina, and Macedonia, leaving only Serbia and Montenegro together in a new Federal Republic of Yugoslavia.

The years between 1945 and 1990 offered the Macedonians an opportunity for development in some areas, in addition to their cultural and nation-building efforts, within the framework of a one-party Communist system. For the first time in their history the Macedonians had their own republic and government with a very broad range of responsibilities. Forty-five years was a long enough period to have trained generations for public service responsibilities and the governing of an independent state. In addition, Macedonia derived considerable benefits from the Yugoslav framework in terms of federal support for underdeveloped areas (Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro). Macedonia's share of the special development funds ranged from 26% in 1966 to about 20% in 1985, much of it supplied by Croatia and Slovenia.

In the wake of developments in Slovenia and Croatia, Macedonia held its first multi-party elections in November–December 1990, with the participation of over 20 political parties. Four parties formed a coalition government that left the strongest nationalist party (IMRO) in the opposition. In January 1991 the Macedonian Assembly passed a declaration of sovereignty.

### Independence

While early in 1989 Macedonia supported Serbia's Slobodan Milošević in his recentralizing efforts, by 1991, Milošević was viewed as a threat to Macedonia and its leadership took positions closer to the confederal ones of Slovenia and Croatia. A last effort to avoid Yugoslavia's disintegration was made 3 June 1991 through a joint proposal by Macedonia and Bosnia and Herzegovina, offering to form a "community of Yugoslav Republics" with a centrally administered common market, foreign policy, and national defense. However, Serbia opposed the proposal.

On 26 June 1991—one day after Slovenia and Croatia had declared their independence—the Macedonian Assembly debated the issue of secession from Yugoslavia with the IMRO group urging an immediate proclamation of independence. Other parties were more restrained, a position echoed by Macedonian president Kiro Gligorov in his cautious statement that Macedonia would remain faithful to Yugoslavia. Yet by 6 July 1991, the Macedonian Assembly decided in favor of Macedonia's independence if a confederal solution could not be attained.

Thus, when the process of dissolution of Yugoslavia took place in 1990–91, Macedonia refused to join Serbia and Montenegro and opted for independence on 20 November 1991. The unification issue was then raised again, albeit negatively, by the refusal of Greece to recognize the newly independent Macedonia for fear that its very name would incite irredentist designs toward the Slav Macedonians in northern Greece. The issue of recognition became a problem between Greece and its NATO allies in spite of the fact that Macedonia had adopted in 1992 a constitutional amendment forbidding any engagement in territorial expansion or interference in the internal affairs of another country. In April 1993, Macedonia gained membership in the UN, but only under the name of "Former Yugoslav Republic of Macedonia." Greece also voted against Macedonian membership in the Conference on Security and Cooperation in Europe on 1 December 1993. However, on 16 December 1993, the United Kingdom, Germany, Denmark, and the Netherlands had announced the initiation of the recognition process for Macedonia and other countries joined the process, which resulted in recognition of Macedonia by the United States on 8 February 1994. In April 1994 the EU began to take legal action in the European Court of Justice against Greece for refusing to lift a trade blockade against Macedonia that it initiated two months earlier. However, by October 1995, Greece agreed to lift the embargo, in return for concessions from Macedonia that included changing its national flag, which contained an ancient Greek emblem depicting the 16-pointed golden sun of Vergina. The dispute over the name of Macedonia remained, but the agreement defused the threat of violence in the region.

On 3 October 1995, Macedonian president Kiro Gligorov narrowly survived a car-bomb attack that killed his driver. The next day, parliament named its speaker, Stojan Andov, as the interim president after determining that Gligorov was incapable of performing his functions. Gligorov resumed his duties in early 1996. As tensions between majority Albanians and minority Serbs in the neighboring Yugoslav province of Kosovo heated up from 1997 to 1999, fears mounted that full-scale fighting would spread to Macedonia. Ethnic violence erupted in the town of Gostivar in July 1997 after the Macedonian government sent in special military forces to remove the illegal Albanian, Turkish,

and Macedonian flags flying outside the town hall. Several thousand protesters, some armed, had gathered and were in a stalemate with police. During the skirmish, police killed three ethnic Albanians and several policemen were shot. The Albanian nationalist Kosovo Liberation Army also claimed attacks against two police stations in Macedonia in December 1997 and January 1998. As the violence mounted the United Nations Security Council voted unanimously on 21 July 1998 to renew the UNPREDEP (United Nations Preventive Deployment Force) mandate another six months and to bolster the contingent with 350 more soldiers.

When full-scale fighting in Kosovo erupted in early 1999 and NATO responded with air strikes against Serbia, Macedonia became the destination for tens of thousands of Kosovar Albanian refugees fleeing from Serbian ethnic cleansing. For a while the situation in Macedonia remained tense as the government, fearful of a spillover of the fighting into its territory, closed its frontiers to refugees. Nonetheless, the presence of NATO forces and pledges of international aid prevented (aside from errant bombs and a couple of cross-border incursions) a spread of the fighting and maintained domestic stability in Macedonia.

However, in 2000, violence on the border with Kosovo increased, putting Macedonian troops in a state of high alert. In February 2001, fighting broke out between government forces and ethnic Albanian rebels, many from the Kosovo Liberation Army, but also ethnic Albanians from within Macedonia. The insurrection broke out in the northwest, where rebels took up arms around the town of Tetovo, where ethnic Albanians make up a majority of the population. NATO depolyed additional forces along the border with Kosovo to stop the supply of arms to the rebels; however, the buffer zone proved ineffective. As fighting intensified in March, the government closed the border with Kosovo. The UN High Commissioner for Refugees estimated that 22,000 ethnic Albanians had fled the fighting by that time. Fears in Macedonia of the creation of a "Greater Albania," including Kosovo and parts of Macedonia, were fueled by the separatist movement, and mass demonstrations were held in Skopje urging tougher action against the rebels. The violence continued throughout the summer, until August, when the Ohrid Framework Agreement was signed by the government and ethnic Albanian representatives, granting greater recognition of ethnic Albanian rights in exchange for the rebels' pledge to turn over weapons to the NATO peacekeeping force.

In November 2001, parliament amended the constitution to include reforms laid out in the Ohrid Framework Agreement. The constitution recognizes Albanian as an official language, and increases access for ethnic Albanians to public-sector jobs, including the police. It also gives ethnic Albanians a voice in parliament, and guarantees their political, religious and cultural rights. In March 2002, parliament granted an amnesty to the former rebels who turned over their weapons to the NATO peacekeepers in August and September 2001. By September 2002, most of the 170,000 people who had fled their homes in advance of the fighting in 2001 had returned.

Parliamentary elections were held on 15 September 2002, which saw a change in leadership from the nationalist VMRO-DPMNE party of Prime Minister Ljubco Georgievski to the moderate Social Democratic League of Macedonia (SDSM)-led "Together for Macedonia" coalition. Branko Crvenkovski became prime minister. At that time Boris Trajkovski was president; he had been elected from the VMRO-DPMNE party in 1999. In the September 2002 elections, former ethnic Albanian rebel-turned-politician Ali Ahmeti saw his Democratic Union for Integration party (DUI) claim victory for the Albanian community, which makes up more than 25% of the Macedonian population. Ahmeti, former political leader of the National Liberation Army (NLA), delayed taking his seat in parliament

until December, for fear it would ignite protests among Macedonians who still regarded him as a terrorist. Indeed, in January 2003, the DUI headquarters in Skopje came under assault from machine-gunfire and a grenade, the fourth such attack on DUI offices.

In November 2002, NATO announced that of 10 countries aspiring to join the organization, 7 would accede in 2004, leaving Albania, Macedonia, and Croatia to wait until a later round of expansion. In January 2003, Albania and Macedonia agreed to intensify bilateral cooperation, especially in the economic sphere, so as to prepare their way for NATO and EU membership.

### 13 GOVERNMENT

Macedonia achieved its independence from the former Yugoslavia on 20 November 1991, having adopted its constitution on 17 November 1991. Macedonia's unicameral assembly of 120 seats is called the Sobranje. Eighty-five members are elected in single-seat constituencies, and 35 are elected by proportional representation. The executive branch consists of the president (elected by popular vote for a five-year term) and the Council of Ministers (elected by the majority vote of all the deputies in the Sobranje). The prime minister is elected by the assembly. In November 2001, parliament amended the constitution to include greater recognition of ethnic Albanian political, religious, and cultural rights.

### 14 POLITICAL PARTIES

Following the 2002 elections, party representation in the Sobranje (Assembly) was as follows: the Together for Macedonia coalition (composed of 10 parties led by the Social Democratic League of Macedonia and the Liberal Democratic Party (SDSM-LDP), 40.5% (59 seats); Internal Macedonian Revolutionary Organization-Democratic Party for Macedonian Unity (VMRO-DMPNE), 24.4% (34 seats); Democratic Union for Integration (DUI), 11.9% (16 seats); Democratic Party of Albanians (PDS), 5.2% (7 seats); Democratic Prosperity Party (PDP), 2.3% (2 seats); National-Democratic Party (NDP), 2.1% (1 seat); and the Socialist Party of Macedonia (SPM), 2.1% (1 seat). The DUI, PDS, PDP, and NDP are ethnic Albanian parties. The last presidential election was held in 1999 and VMRO-DMPNE candidate Boris Trajkovski won a majority in the second round over his main opponent, Social-Democrat Tito Petkovski.

### 15 LOCAL GOVERNMENT

Macedonia's 123 municipalities form the structure of local government. The municipality is the basic self-managed sociopolitical community. Council members are directly elected for four-year terms, as are the mayors of the municipalities. Citizens may form neighborhood (village and suburb) governing bodies. Where the number of members of a particular nationality exceeds 20% of the total number of inhabitants in a municipality, the language and alphabet of that nationality shall be in official use, in addition to Macedonian and the Cyrillic alphabet.

### 16 JUDICIAL SYSTEM

The judicial system is comprised of three tiers: municipal courts, district courts, and the Supreme Court. A constitutional court handles issues of constitutional interpretation, including protection of individual rights. The constitution directs the establishment of a people's ombudsman to defend citizens' fundamental constitutional rights; the office became functional in 1997. An independent Republican Judicial Council appoints judges, who are confirmed by parliament. The constitutional court has not yet rendered any decisions in the area of protection of individual rights or liberties. The constitution guarantees the autonomy and independence of the judiciary.

### 17 ARMED FORCES

In January 1992, the Macedonian Assembly approved the formation of a standing army of 25,000–30,000 troops. However, the actual size of the military was estimated to be 12,300 active personnel in 2002, with reservists numbering 60,000. The army was equipped with 125 main battle tanks, and had a marine wing with five patrol craft and an air division with four combat air craft. The paramilitary consisted of an armed police force numbering 7,600. Opposition forces in the National Liberation Army (NLA) numbered between 500 and 1,000. There were approximately 4,700 UN and NATO peacekeeping forces stationed in Macedonia. Defense-related expenditures amounted to about \$200 million in 2001–02 or 6% of GDP.

In March 1997, rioters in neighboring Albania looted government armories, making off with hundreds of thousands of AK-47 assault rifles. Substantial numbers of those weapons were smuggled into Macedonia and sold to ethnic Albanians.

### 18 INTERNATIONAL COOPERATION

The Former Yugoslav Republic of Macedonia was admitted to the UN on 8 April 1993. Macedonia is a member of EBRD, ECE, FAO, IAEA, IMF, INTERPOL, OSCE, UNCTAD, UNESCO, UNIDO, WHO, WIPO, and WMO, among other bodies, and has applied for member status in the WTO. In February 1994 the Macedonia's sovereignty was recognized by the United States and EU countries. In November 1995 Macedonia ratified the European Convention on Human Rights and accepted the jurisdiction of the European Court of Human Rights. The convention includes several Eastern and Central European nations that see membership as a precursor to possible admission to the EU in the future.

### 19 ECONOMY

Although the poorest of the six former Yugoslav republics, Macedonia nevertheless can sustain itself in food and energy needs using its own agricultural and coal resources. Due to the scarcity of arable land in the Vardar River Valley and other valleys in the west, expatriate employment in Serbia and Germany has become more common.

In August 1992, because it resented the use of "Macedonia" as the republic's name and feared a hidden ambition to lay claim to the Greek province with the same name, Greece imposed a partial blockade on Macedonia. Greece later imposed a full trade embargo against Macedonia in February 1994. This blockade, combined with the UN sanctions on Serbia and Montenegro, cost the economy an estimated \$2 billion by the end of 1994. Macedonia's per capita GNP fell from \$1,800 to less than \$760 because of the sanctions and the Greek blockade. After threats of legal action by the EU, in October 1995 Greece ceased the embargo and promised not to interfere with Macedonia's commerce.

From 1998 to 2000 real GDP growth averaged a little over 4%, but in 2001, in the wake of rising global tensions and a global economic slowdown, real GDP growth fell 4.5%. Although 2002 saw an end to the contraction, growth was estimated at 0.3%. Inflation had jumped to 6.1% in 200, but moderated to 3.7% in 2001, and was projected at only 1% in 2002. Unemployment remains a serious problem. The official estimate for 2002 was almost 32%, with some 70% of 15-24 year olds without work. In 2001, agriculture accounted for about 10% of GDP; industry, 32%; and services, 58%.

### 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Macedonia's gross domestic product (GDP) was estimated at \$10 billion. The per capita GDP was estimated at \$5,000. The annual growth rate of GDP was estimated at 3.8%. The average inflation

rate in 2002 was 4%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 11% of GDP, industry 31%, and services 58%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$80.49 million or about \$40 per capita and accounted for approximately 2.4% of GDP. Worker remittances in 2001 totaled \$68.1 million. Foreign aid receipts amounted to about \$121 per capita and accounted for approximately 7% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$1,819. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption declined at an annual rate of 7%. Approximately 33% of household consumption was spent on food, 15% on fuel, 6% on health care, and 9% on education. It was estimated that in 2001 about 24% of the population had incomes below the poverty line.

## 21 LABOR

There were about one million persons in the labor force in 2000. In 2002, more than 35% of the labor force was unemployed.

The constitution guarantees citizens the right to form labor unions with restrictions on the military, police, and government workers. Approximately 50% of the workforce is organized. The Confederation of Trade Unions of Macedonia (SSSM) is the labor confederation which is the successor to the old Communist Party labor confederation, and is still the government's primary negotiating partner on social issues. Employees have little bargaining power in the weak economic environment. Strikes may be utilized to protect employee interests.

Macedonia has adopted many provisions from the old Yugoslav SFR labor code, including a 42 hour workweek and a minimum employment age of 15 years. The law provides that workplaces must meet minimum occupational health and safety standards but reports indicate that these are not effectively enforced. Legally, the minimum wage is two-thirds of the average wage, which was about \$155 per month in 2002. This does not provide a family with a living wage, and many are engaged in additional economic activity.

## 22 AGRICULTURE

As of 1998, there were some 647,000 ha (1,626,000 acres) of arable land, representing 25% of the total land area. Most private farms are very small; 65% of private farmers own at most one ha (2.7 acres) sometimes scattered in five or six locations.

Wheat production is concentrated in south central Macedonia and in public farms. Corn and barley are produced throughout the country, mostly by the private sector. About 80% of agricultural land is held by the private sector. The remaining 20% is held by state-owned enterprises known as Kombinats. Estimated grain production in 1999 included: wheat, 378,000 tons; barley, 142,000 tons; and corn, 200,000 tons. Rye, rice, and oats are also grown in smaller quantities. Other important crops produced in 1999 included (in 1,000 tons): tomatoes, 127; potatoes, 180; sunflower seeds, 14; sugar beets, 58; and walnuts, 3. In 1999, 244,000 tons of grapes and 123,000 tons of wine were produced. Tobacco is grown throughout Macedonia and is planted on 4% of the arable land. Production was 32,000 tons in 1999.

## 23 ANIMAL HUSBANDRY

Meadows and pastures accounted for about 25% of the total land area. Livestock in 2001 consisted of 1,251,000 sheep,

265,000 head of cattle, 204,000 pigs, and 3,350,000 chickens. Cattle numbers have increased slightly since 1992 due mainly to the increase in cows. About 50% of cattle are for the dairy sector. There are about 30 state farms with 250–1,200 cows in the Skopje and Bitola areas. Over 90% of cattle, however, are in private hands, with most farmers rarely having more than three cows because of limited land. Cow milk accounts for 74% of milk production; sheep milk, 26%. The rapidly growing goat sector is also contributing to increasing milk production. The raising of goats was prohibited during the socialist era in order to protect forestry resources. Production in 2001 included (in tons): mutton, 5,900; beef, 9,000; poultry, 12,000; and milk, 200,000.

## 24 FISHING

Inland fishing occurs on Lake Ohrid, Lake Prespa, and the Vardar River. The total catch in 2000 was 208 tons (primarily trout, bream, and carp), all from inland fishing. Macedonia has no direct access to the sea for marine fishing.

## 25 FORESTRY

About 36% of the total area consisted of forests and woodlands in 2000, mostly in the eastern and southern regions. Bitola is the center for the wood products industry. Total roundwood production in 2000 was 1,047,000 cu m (36.96 million cu ft), with 84% used as firewood.

## 26 MINING

The industrial minerals and construction material sectors were major contributors to the 5.1% rise in GDP in 2000, a growth caused mainly by postwar reconstruction demands in Kosovo and freer access to markets in the EU. Industry and mining accounted for 21.1% of Macedonia's GDP. Macedonia's top industries in 2002 were, in order, coal, metallic chromium, lead, zinc, and ferronickel. Lead-zinc ore was mined at Kamenica and Probistip; copper, at Bucim; and iron ore, at Tajmite, Demir Hisar, and Damjan. Gold, bentonite, diatomite, feldspar, lime, talc, pumice, stone (carbonite and silicate), gypsum, and sand and gravel were also produced in 2000. About 20% of mine output of industrial minerals was consumed domestically; the balance went mainly to Balkan countries, the EU, and Russia. Production totals in 2000 were, in tons: lead, 25,000; zinc, 12,200, down from 50,000 in 1994; copper, 10,000; and silver, 20,000 kg, up from 10,000 in 1994. In 2000, the government sold 82% of shares of the country's principal mine producer of copper. No chromite was produced in 1998, 1999, and 2000, and no nickel was produced in 2000.

## 27 ENERGY AND POWER

In 2000, 6.4 billion kWh of electricity were generated, 82.3% from conventional thermal plants and 17.7% from hydropower. Installed capacity totaled 1,566,000 kW in 2001. Consumption of electricity in 2000 was 6 billion kWh. Macedonia's only domestic mineral fuel is coal.

## 28 INDUSTRY

Macedonia's industries are centered around Skopje. Steel and chemical production, along with buses, textiles, food processing, tobacco, furniture, and ceramics are important industries. In 1995, the government began privatizing its 25 largest public industries. Industry accounted for 31% of GDP in 2001. The Kosovo crisis of 1999 severely disrupted the Macedonian economy, as did the ethnic Albanian armed insurgency in Macedonia in 2001.

## 29 SCIENCE AND TECHNOLOGY

The former Yugoslav republic of Macedonia uses only low levels of technology for its agriculture and mining industries. Oil refining is performed by distillation only.

The Macedonian Academy of Sciences and Arts, founded in 1967 at Skopje, has sections of biological and medical sciences and of mathematical and technical sciences. The country also has an Association of Sciences and Arts, founded in 1960 at Bitola, as well as specialized learned societies concerned with physics, pharmacy, geology, medicine, mathematics and computers, veterinary surgery, engineering, forestry, and agriculture. Macedonia has research institutes dealing with geology, natural history, cotton, animal breeding, tobacco, animal husbandry, and water development.

The University of Skopje (founded in 1949) has faculties of civil engineering, agriculture, veterinary medicine, forestry, medicine, pharmacy, mechanical engineering, electrotechnical engineering, technology and metallurgy, natural and mathematical sciences, stomatology, and geology and mining. In 1987–97, science and engineering students accounted for 47% of university enrollment. The Natural History Museum of Macedonia (founded in 1926) is located in Skopje. Macedonia in 1987–97 had 1,335 scientists and engineers and 546 technicians per million people engaged in research and development.

### 30 DOMESTIC TRADE

The commercial and industrial center of the country is Skopje, with industries that include glass, beer, bricks, and tobacco. Prilep serves as the nation's agricultural center for tobacco and fruit. Kumanovu is an industrial center for canning and tobacco processing and a trading center for cattle, fruit, and liquor. Domestic commerce typically centers around an urban marketplace, where marketing of farm products is carried out. Formal trade of products and commodities through state enterprises has declined since independence. However, private traders do not always offer a consistent and reliable market outlet for producers.

### 31 FOREIGN TRADE

In 1999, exports amounted to \$1.2 billion, of which manufactured goods accounted for an estimated 89%; agriculture, 9%; and mining, 2%. Imports in 1999 totaled \$1.8 billion, of which machinery and transport equipment accounted for an estimated 20%; manufactured goods, 16%; food and live animals, 12%; chemicals, 10%; fuels and lubricants, 9%; other manufactured products, 5%; raw materials (excluding fuels), 3%; and beverages and tobacco, 2%.

Principal trading partners in 1999 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Serbia and Montenegro	254	184	70
Germany	254	246	8
United States	136		5581
Greece	86	165	-79
Italy	78	93	-15
Croatia	49		401
Slovenia	34	157	-123
Bulgaria	26	92	-66
Russia	15		91-76

### 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Macedonia's exports was \$1 billion while imports totaled \$1.6 billion resulting in a trade deficit of \$600 million.

The International Monetary Fund (IMF) reports that in 2001 Macedonia had exports of goods totaling \$1.15 billion and imports totaling \$1.58 billion. The services credit totaled \$234 million and debit \$337 million. The following table summarizes Macedonia's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-324</b>
Balance on goods	-421
Balance on services	-103
Balance on income	-41
Current transfers	241
<b>Capital Account</b>	<b>1</b>
<b>Financial Account</b>	<b>388</b>
Direct investment abroad	-1
Direct investment in Macedonia	443
Portfolio investment assets	3
Portfolio investment liabilities	...
Other investment assets	9
Other investment liabilities	-66
<b>Net Errors and Omissions</b>	<b>26</b>
<b>Reserves and Related Items</b>	<b>-91</b>

### 33 BANKING AND SECURITIES

In 1992, the National Bank of Macedonia was created to issue currency, conduct monetary policies, and regulate the banking sector of the country.

Commercial banks in Macedonia include the Komercijalna Banka and Scopanska Banka, both in Skopje. The currency unit is the Macedonia denar (DEN) introduced on 10 May 1993, at a rate of 1:1,000 against the coupon. The central bank also introduced a floating rate for the denar against major currencies. There are no security exchanges in the country.

Under a five-year stabilization program agreed with the IMF, the government is focusing on reducing inflation, overhauling the financial system and launching structural reforms. Despite the Greek blockade, the program met its fiscal targets in 1994 with the state deficit declining to 2.5% of GDP in 1994. Reform of the state banking system made progress in 1996, although banks are still lending to inefficient state enterprises. Privatization has made some progress with the privatization agency raising \$8 million in revenue in 1994 through the sale of four large companies and 14 medium-sized and small companies.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$164.1 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$887.3 million. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 10.7%.

### 34 INSURANCE

In 1995, the Makedonija Insurance and Reinsurance Company was offering the following types of insurance: property, liability, life, accident, motor, fire, and marine.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimates that in 2001 Macedonia's central government took in revenues of approximately \$850 million and had expenditures of \$950 million. Overall, the government registered a deficit of approximately \$100 million. External debt totaled \$1.3 billion.

### 36 TAXATION

Personal income taxes range from 1.28-2.17%; corporate rates vary from 1.5-5.5%. Also levied is a payroll tax of 8.8-43%. On 1 April 2000 a value-added tax (VAT) was introduced with a standard rate of 19%. In April 2003, the standard rate was reduced to 18%. There is also a reduced rate of 5% applied to basic goods and services.

### 37 CUSTOMS AND DUTIES

Macedonia has adopted a duty-free import agreement with Slovenia, Croatia, and Serbia (as of October 1996); importers pay only a 1% border crossing tax for document handling.

Macedonia is also seeking to establish a trade zone with Bulgaria and Albania. The average weighted tariff in 2002 was 14.5%, up from 11% in 2000. Corruption in the customs system discourages trade.

### 38 FOREIGN INVESTMENT

Macedonia's isolation, technological disadvantages, and penchant for political instability created a poor climate for potential foreign investors. In 1995, the government began restructuring and privatizing its largest state-owned companies. After 1997, inflows of foreign investment increased substantially. In 2001, Hungary was the largest source of foreign direct investment.(FDI).

### 39 ECONOMIC DEVELOPMENT

As of May 1994, the EBRD established a \$10 million facility to guarantee Komercijalna Banka's designated correspondent banks against non-payment under confirmed letters of credit. By securing credit facilities, the bank's clients are able to stimulate production and increase exports. In 1995, net resource flows from international financial institutions consisted of \$43 million from the World Bank, \$37 million from the International Monetary Fund (IMF), and \$16 million from other institutions.

In 1995, the government began privatizing its largest state-owned industries. A total of 1,200 enterprises were to be privatized, 65% of them classified as small (fewer than 50 employees). The portion of a company's share capital which is community-owned is known as social capital, which forms the basis of the privatization process. In theory, social capital is owned by the company's employees. However, there are severe restrictions which make it nontransferable and hence valueless to the individual.

The Kosovo crisis of 1999 placed severe burdens on Macedonia's already strained economy as an influx of Kosovar refugees flooded across the border and trade routes were disrupted. Fighting between government forces and ethnic Albanian rebels that began in February 2001 further disrupted the economy. Real GDP declined by 4.5% in 2001, and government spending mushroomed. Spending on security raised the general government deficit to 7.2% of GDP, compared with a surplus of 1.8% in 2000.

In 2003, the IMF approved a \$28 million Stand-By Arrangement for Macedonia, which was to expire in June 2004. The loan was geared to support the government's economic program for fiscal stability following the 2001 crisis, to promote growth, improve the business climate, and improve living standards for Macedonians.

### 40 SOCIAL DEVELOPMENT

Macedonia, historically the poorest of the former Yugoslav republics, has suffered further from the imposition of international sanctions against Serbia, the rising tide of refugees, and increasing unemployment. Social care is funded by the government to assist the disabled, elderly, unemployed and poor. Maternity benefits are available for nine months, and women are guaranteed the right to return to work within two years after childbirth.

Although women have the same legal rights as men, the traditional cultures of both Christian and Muslim communities have limited their advancement in society. There are some professional women but generally women are not represented in the higher levels of professional or public life. A few women's advocacy and support groups, including the Union of Macedonian Women, now exist. Widespread violence against women in the home remains unpunished by authorities, and it is extremely rare for criminal charges to be filed against abusive husbands. Children, like adults, have been victims of internal

conflict and ethnic violence. Resources are scarce to fund programs to benefit children.

Ethnic minorities, including Albanians and Turks, complain of widespread discrimination. Restrictive naturalization policies have left many Albanians without Macedonian citizenship, and therefore without voting rights. Abuse by police of prisoners and suspects is widespread, with most cases involving Roma, ethnic Albanians, or Kosovar refugees.

### 41 HEALTH

Following the breakup of the former Yugoslavia, the availability of health care statistics for Macedonia was hampered by internal hostilities. Separate health care data is slowly emerging from the new independent regions. Physicians in Macedonia are adequately trained, but there is a shortage of pharmaceuticals and medical equipment. Patients who are seriously ill will often go abroad for medical help.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 13.4 and 7.7 per 1,000 people. There were two births per married woman of childbearing age during 1999. The infant mortality rate has been reduced from 54 per 1,000 live births in 1980 to 14 in 2000. The life expectancy at birth for the average Macedonian was 73 in 2000. In 1994, 229 cases of measles were reported. In 1999 there were 50 cases of tuberculosis per 100,000 people.

In 1994, the immunization rates for children under the age of one were as follows: diphtheria, whooping cough and tetanus, 87%; measles, 85%; and tuberculosis, 90%.

### 42 HOUSING

During the years of the former Yugoslav SFR, there was a chronic shortage of housing in Macedonia and the other republics. Since independence, the ability to find an available apartment or condominium has improved. Federal banks have begun loan programs making it now possible to finance the construction of seasonal homes in the country or by resort areas. In the 1994 census, there were about 580,342 dwellings supporting about 501,963 households. There was an average of 3.85 people per household.

### 43 EDUCATION

Public education at the primary level is compulsory for eight years, between the ages of 7 and 15. In 1997, there were 260,917 students enrolled in 1,086 primary schools, with 13,394 teachers. The student-to-teacher ratio stood at 19 to 1. There are also many secondary-level schools. In 1997, 83,746 students were enrolled in secondary schools, with 5,136 teachers. As of 1999, approximately 95% of primary-school-age children were enrolled in school. At the postsecondary level, there are two universities: the Bitola University, which was founded in 1979, and the University of Skopje, founded in 1949. The language of instruction is Macedonian, and there are faculties of law, engineering, medicine, arts, science, physical education, architecture, and agriculture. In 1997, institutions of higher learning had a combined enrollment of 30,754 students; teaching staff totaled 2,462. In the latter half of the 1990s, expenditure on education accounted for 5.6% of GNP and approximately 20.0% of public expenditures.

### 44 LIBRARIES AND MUSEUMS

The Kliment Ohridski National and University Library in Skopje (1944) holds 2.5 million volumes and is the largest collection in the country. The District of Skopje Public Library has 953,000 volumes.

In Skopje are the Fine Arts Museum, the Museum of Contemporary Art, and the Museum of the City of Skopje. There are also several archaeological and historical museums. The National Museums, specializing in archeology and ethnology, are

in Ohrid and Stip, and there is an Islamic Art museum in Bitola. In Strumica is the Institute for Protection of Cultural Monuments, Natural Rarities, and Museum.

#### 45 MEDIA

As of 1997, there were 408,000 main line telephones in use and 12,362 mobile cellular phones. Though most media are government owned, an independent television station, A-1, broadcasts from Skopje. As of 1998, there were 29 AM and 20 FM radio stations. There were 31 television stations as of 1995. In 2000 there were about 205 radios and 282 television sets for every 1,000 people. About six Internet service providers served 100,000 users in 2001.

Several daily newspapers are published in Skopje, as well as a number of periodicals. Newspapers in Albanian and a Turkish language paper are available nationally and subsidized by the government, including the Albanian-language *Flaka e Vlazernit* (*Flame of Brotherhood*) and the Turkish language *Birlik*. In 1994 *Delo*, a new weekly with reportedly nationalistic leanings, began publication. As of 2002, the leading newspapers were *Nova Makedonia* (circulation 25,000) and *Vecer* (29,200).

The constitution forbids censorship and the government is said to respect this in practice. However, the government has restricted certain parts of the media during civil conflicts.

#### 46 ORGANIZATIONS

The Chamber of Economy of Macedonia coordinates trade and commerce with the world. The Macedonian Academy of Science, founded in 1967, coordinates and finances scientific research conducted in Macedonia. The country has 26 learned societies and 13 natural and social scientific institutions. There are youth organizations affiliated with major political parties. There is also an active scouting association. National women's organizations include Journalism About Women's and Children's Rights and Environment in Macedonia and the Union of Women's Organizations of the Republic of Macedonia. The Red Cross is active in the country.

#### 47 TOURISM, TRAVEL, AND RECREATION

As an isolated republic of the former Yugoslav SFR, Macedonia has very modest levels of tourist activity. Medieval monasteries and Orthodox churches are primary attractions. Turkish baths and bazaars can also be found. In 2000 there were about 224,000 tourist arrivals and tourism receipts totaled \$37 million. The 6,636 hotel rooms had an occupancy rate of only 15% that year.

In 2002, the US government estimated the cost of a stay in Macedonia at about \$153 per day.

#### 48 FAMOUS MACEDONIANS

Kiro Gligorov (b.1917) has been the president of Macedonia since January 1991 and was reelected in 1994. Branko Crvenkovski was made prime minister in September 1992. Mother Teresa (Agnes Gonxha Bojaxhiu, 1910–1997) was from Skopje but left at age 17 to join a convent in Calcutta, India. In 1948, Mother Teresa left the convent to found the Missionaries of Charity. She won the Nobel Peace Prize in 1979.

Phillip II (382 BC–336 BC) was the father of Alexander the Great. During Philip II's reign of 359–336 BC, he established a federal system of Greek States. Macedonian Alexander the Great

(356 BC–323 BC) founded an enormous empire that extended from Greece to northern India. Cassandar (353 BC–297 BC) succeeded Alexander the Great, and was king of Macedonia between 316 BC and 297 BC. To consolidate his power, Cassandar murdered Alexander's mother, widow, and son. Philip V (237 BC–179 BC) warred against the Romans and tried to rebuild the kingdom.

#### 49 DEPENDENCIES

Macedonia has no territories or colonies.

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# MALTA

The Republic of Malta  
*Repubblika Ta' Malta*

**CAPITAL:** Valletta

**FLAG:** The national flag consists of two equal vertical stripes, white at the hoist and red at the fly, with a representation of the Maltese Cross, edged with red, in the canton of the white stripe.

**ANTHEM:** *L'Innu Malti (The Maltese Hymn)*.

**MONETARY UNIT:** The Maltese lira (LM) consists of 100 cents, with each cent divided into 10 mils. There are coins of 2, 3, and 5 mils and of 1, 2, 5, 10, 25, and 50 cents, and notes of 2, 5, 10, and 20 lira. Gold and silver coins of 1, 2, 4, 5, 10, 20, 25, 50, and 100 lira also are in circulation. ML1 = \$2.5 (or \$1 = M0.40; as of April 2003).

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some local measures are still in use.

**HOLIDAYS:** New Year's Day, 1 January; National Day, 31 March; May Day, 1 May; Assumption, 15 August; Republic Day, 13 December; Christmas, 25 December. Movable holidays include Good Friday.

**TIME:** 1PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Malta lies in the central Mediterranean Sea, 93 km (58 mi) south of Sicily and 290 km (180 mi) from the nearest point of the North African mainland. There are three main islands—Malta, Gozo to the NW, and Comino between them—as well as two small uninhabited islands, Cominotto and Filfla. Extending for 45 km (28 mi) SE-NW and 13 km (8 mi) NE-SW, Malta's total area is 316 sq km (122 sq mi)—Malta, 245.7 sq km (94.9 sq mi); Gozo, 67.1 sq km (25.9 sq mi); Comino, 2.8 sq km (1.1 sq mi). Comparatively, the area occupied by Malta is slightly less than twice the size of Washington, D.C. The total coastline is 252.81 km (157 mi).

Malta's capital city, Valletta, is located on the east coast of the island of Malta.

## <sup>2</sup>TOPOGRAPHY

The islands of Malta are a rocky formation (chiefly limestone) rising from east to northeast to a height of 240 m (786 ft), with clefts that form deep harbors, bays, creeks, and rocky coves.

## <sup>3</sup>CLIMATE

The climate is typically Mediterranean, with fairly hot, dry summers and rainy, mild winters. The average winter temperature is 9°C (48°F); the average summer temperature, 31°C (88°F). Rainfall occurs mostly between November and January and averages about 56 cm (22 in) per year.

## <sup>4</sup>FLORA AND FAUNA

The islands are almost treeless. Vegetation is sparse and stunted. Carob and fig are endemic and the grape, bay, and olive have been cultivated for centuries. There are some rock plants.

The weasel, hedgehog, and bat are native to Malta. White rabbits and mice have been introduced. Many types of turtles, tortoises, and butterflies and several varieties of lizard also are found. Common varieties of Mediterranean fish, as well as the seal and porpoise, inhabit the surrounding waters.

## <sup>5</sup>ENVIRONMENT

Malta's most significant environmental problems include inadequate water supply, deforestation, and the preservation of its wildlife. The country's extremely limited fresh water resources have led to increasing dependence on desalination. The nation's agriculture suffers from lack of adequate water for crops due to limited rainfall. Currently, 31% of Malta's land area is arable land and 3% is planted with permanent crops. Malta was one of the first countries to ratify the 1976 Barcelona Convention for the protection of the Mediterranean from pollution. Malta's government has made recent efforts to control environmental damage including passage of the Environmental Protection Act of 1991 and the creation of a Ministry for the Environment. The Ministry of Health and Environment belongs to the International Union for the Conservation of Nature and Natural Resources. In cooperation with the World Wildlife Fund, the Ghadira wetland area was made a permanent nature reserve in 1980. According to the United Nation reports in the mid-1990s, a significant proportion of Malta's animal and plant life is in danger of extinction. Endangered species include the slender-billed curlew, Mediterranean monk seal, hawksbill turtle, and Atlantic ridley.

## <sup>6</sup>POPULATION

The population of Malta in 2003 was estimated by the United Nations at 394,000, which placed it as number 165 in population among the 193 nations of the world. In that year approximately 12% of the population was over 65 years of age, with another 20% of the population under 15 years of age. There were 98 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.42%, with the projected population for the year 2015 at 411,000. The population density in 2002 was 1,188 per sq km (3,076 per sq mi), which makes it one of the most densely populated country in the world.

It was estimated by the Population Reference Bureau that 91% of the population lived in urban areas in 2001. Valletta, the capital and chief port, had a population of 102,000 in that year.



Other major cities include Birkirkara (21,770), Qormi (19,525), and Sliema (13,541). According to the United Nations, the urban population growth rate for 2000–2005 was 0.7%.

## 7 MIGRATION

High population density and unemployment have led to emigration. Most foreigners living in Malta are British nationals and their dependents. Malta has no national refugee law, and all recognized refugees in Malta are resettled in third countries. Since 1983, Malta has received some 2,400 asylum applications. Of these, 1,860 have been resettled. During the first half of 1999, another 53 asylum applications were submitted. The main countries of origin include Sudan, Algeria, Sierra Leone, and Palestine. In 2000 the net migration rate was 1.4 migrants per 1,000 population. The total number of migrants that year was 9,000. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

Most Maltese are believed to be descended from the ancient Carthaginians and Phoenicians, but there are strong elements of Italian and other Mediterranean stock.

## 9 LANGUAGES

Maltese, a Semitic language with Romance-language assimilations, is the national language and the language of the courts. Maltese and English are both official languages.

## 10 RELIGIONS

Roman Catholicism is the official state religion, but there is freedom of worship for all faiths. In 2002, an estimated 95% of the population was Roman Catholic, with about 65% actively practicing. Most Protestants are not Maltese. British retirees and vacationers from other countries tend to form the Protestant population. A Christian fundamentalist movement has recently begun to develop; it numbers only about 400 citizens but appears to be growing rapidly. Jehovah's Witnesses, the Church of Jesus Christ of Latter-Day Saints, and the Bible Baptist Church also have active groups on the island. There is one Muslim mosque and one Jewish congregation. Zen Buddhism and the Baha'i Faith are also represented.

## 11 TRANSPORTATION

Malta has no railways. In 2002, there were 1,742 km (1,083 mi) of roadways, of which 1,677 km (1,042 mi) were paved. Passenger cars in 2000 totaled 189,123; taxis, trucks, and buses, 44,290. Ferry and hydrofoil services connect Malta and Gozo.

The harbors of Valletta, among the finest in the Mediterranean, are a port of call for many lines connecting northwestern Europe and the Middle and Far East. Roughly 3,000 ships dock at Valletta each year. As of 2001, 1,323 vessels totaling 27,208,819 GRT (44,617,877 DWT) were registered in Malta (a flag of convenience registry with ships from 49 countries). There was one airport in 2001, the principal airport at Luqa. A new terminal is designed to handle 2.2 million passengers per year (or 2,000 at any given moment). The national air carrier is Malta Airlines. In 2001, 1,405,200 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The strategic importance of the island of Malta was recognized in the time of the Phoenicians, whose occupation of Malta was followed by that of the Greeks, the Carthaginians, and the Romans. The apostle Paul was shipwrecked at Malta in AD 58, and the islanders were converted to Christianity within two years. With the official split of the Roman Empire in 395, Malta was assigned to Byzantium, and in 870 it fell under the domination of the Saracens. In 1090, it was taken by Count Roger of Normandy, and thereafter it was controlled by the rulers of

Sicily—Norman and, later, Aragonese. The Emperor Charles V granted it in 1530 to the Knights of St. John, who had been driven from Rhodes by the Turks. The Knights surrendered Malta to Napoleon in 1798. Two years later, the British ousted the French garrison, with the aid of a revolt by the Maltese people. British possession of Malta was confirmed in 1814 by the Treaty of Paris.

During almost the entire 19th century, a British military governor ruled the colony. After World War I, during which the Maltese remained loyal to Britain, discontent and difficulties increased. The 1921 constitution granted a considerable measure of self-government, but political tensions reemerged, and the constitution, after having twice been suspended, was revoked in 1936. A new constitution in 1939 reinstated Malta as a British crown colony. In World War II the Maltese again remained loyal to the UK, and for gallantry under heavy fire during the German-Italian siege (1940–43), the entire population was awarded the George Cross.

Substantial self-government was restored in 1947. The Maltese, however, carried on negotiations with the UK for complete self-government, except in matters of defense and foreign affairs. In August 1962, Prime Minister Borg Olivier requested the UK to grant Malta independence, and Malta became a sovereign and independent nation within the Commonwealth of Nations on 21 September 1964. At the same time, mutual defense and financial agreements were signed with the UK. Under subsequent accords negotiated between 1970 and 1979, British troops withdrew from Malta, and the NATO naval base on the main island was closed.

On 13 December 1974, Malta formally adopted a republican form of government, and the former governor-general, Sir Anthony Mamo, became the first president. Dom Mintoff, leader of the Malta Labor Party and prime minister from 1971 through 1984, instituted socialist measures and initiated a nonaligned policy in foreign affairs. Although the Labor Party narrowly lost the popular vote in the 1981 elections, it retained its parliamentary majority; to protest the gerrymandering that allegedly made this possible, the opposition Nationalist Party boycotted parliament, and strikes and civil violence ensued. In January 1987, a new law guaranteed that, following future elections, the new government would be formed by the party that won a majority of the popular vote.

On 23 November 1985 Malta became the scene of one of the deadliest hijackings in history, when an Egypt Air flight commandeered by three Palestinian terrorists was forced to land there. In a gun battle, an Egyptian sky marshal on the plane shot and killed the hijackers' leader, and the pilot landed the plane in Malta. After an Israeli and an American passenger were executed, Egyptian commandos set off an explosive charge and rushed the plane, but 57 passengers and another hijacker died in the raid from smoke inhalation, explosive wounds, or gunshots. The surviving hijacker, Omar Mohammed Ali Rezaq, was released from prison by Maltese authorities in 1993 under a general amnesty program. He was later apprehended in Nigeria and extradited to the United States for air piracy, and convicted and sentenced in 1996.

In May 1987, the Nationalist Party won a popular majority but only 31 of 65 seats in parliament. In accordance with the new law, the Nationalists were given four additional seats, for a total of 35 in an expanded 69-seat parliament, and the Nationalist Eddie Fenech Adami became prime minister, replacing the Laborite Carmelo Mifsud Bonnici. The Nationalists were returned to power in February 1992 with a slightly higher majority. Eddie Fenech Adami remained prime minister. Vincent Tabone, president, had been elected in 1989.

Maltese politics have revolved around foreign policy issues, in particular, Malta's relationship with Europe. The Nationalist Party government has been a strong proponent of EU

membership. In July 1990, Malta applied for full membership in the EU. However, after the Labor Party won the 1996 elections, the government's stance shifted towards maintaining neutrality. The Labor government also adopted economic policies, such as raising utility rates, that alienated both the electorate and elements within its own party, which withdrew their support for Prime Minister Alfred Sant. He called new elections three years ahead of schedule, in September 1998, and the Nationalist Party won a majority in a vote seen at least partly as a referendum on the EU membership question. In March 1999, Guido de Marco of the Nationalist Party was elected president by the House of Representatives. Having regained the post of prime minister, NP leader Fenech Adami moved to reactivate Malta's EU membership application and adopted policies—such as the reimposition of a controversial value-added tax—intended to pave the way for membership approval. Malta was one of 10 new candidate countries formally invited to join the EU in December 2002. Malta held its referendum on EU membership on 8 March 2003, with 53.6% voting in favor of joining the body versus 46.4% against. Accession is expected on 1 May 2004.

Elections were held on 12 April 2003, resulting in a win for the Nationalist Party (35 seats); the Labor Party received 30 seats. Fenech Adami stated the victory for the Nationalists represented a confirmation of Malta's "yes" vote to EU membership in the March 2003 referendum.

### 13 GOVERNMENT

The Malta independence constitution came to force on 21 September 1964. Ten years later, Malta became a republic, while remaining within the Commonwealth of Nations. The unicameral parliament, the House of Representatives, consists of 65 members elected for a five-year term by universal adult suffrage (18 years of age and over), under a system of proportional representation. Additional seats may be allocated until a majority of one seat is obtained.

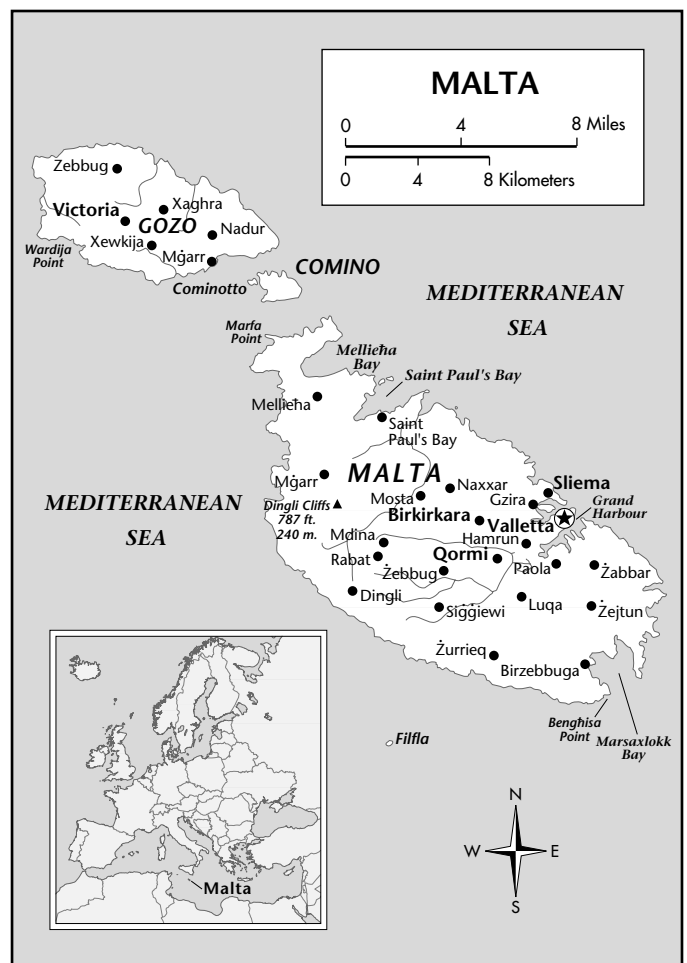
The House elects the head of state, the president of the republic, who holds office for five years. The president appoints the prime minister and, on the latter's advice, the other members of the cabinet. The prime minister, who is the leader of the majority party, is responsible for general direction and control of the government.

### 14 POLITICAL PARTIES

There are two major political parties, the Nationalist Party (NP) and the Malta Labor Party (MLP), which have alternated in political power. The Nationalist Party was returned to government in 1987 after 16 years of Labor Party rule, and won reelection in February 1992 with a three-seat majority (34 to 31) in parliament. The MLP regained control in October 1996 but lost it again following early elections held in September 1998, which the NP won by a five-seat margin. Elections held in April 2003 returned the NP to power; it took 35 seats in the House of Representatives to the MLP's 30.

Parties not represented in parliament include Democratic Alternative (AD), Malta Democratic Party (PDM) and the Malta Communist Party (PKM).

After the elections of 1996, MLP leader Alfred Sant became prime minister after a narrow upset victory (official results gave the MLP 50.72% of the vote). The MLP campaigned for Maltese neutrality by pledging to stop efforts to join the EU, to end Malta's associate membership with NATO, and to seek closer ties with Libya. Following the NP victory in the 1998 election, party leader Eddie Fenech Adami was returned to the post of prime minister and took steps to reactivate Malta's application for EU membership. When voters approved EU membership in a March 2003 referendum, Fenech Adami looked upon the April 2003 NP win as a confirmation of Malta's desire to join the EU.



LOCATION: 35°48' to 36°N; 14°10' 30" to 14°35' E. TERRITORIAL SEA LIMIT: 12 miles.

### 15 LOCAL GOVERNMENT

Local government was established in 1993 with the approval of the Local Councils Act, setting up 68 local councils in Malta; there are 54 on the main island of Malta, and 14 in Gozo.

### 16 JUDICIAL SYSTEM

The superior courts consist of a constitutional court (with the power to review laws and executive acts), two courts of appeal, the civil court, court of magistrates, criminal court, and special tribunals. The president, on the advice of the prime minister, appoints the chief justice and 16 judges. Retirement is at age 65 for judges and age 60 for magistrates. The judiciary operates in an independent manner. Defendants in criminal cases have the right to counsel of choice. Indigent defendants are afforded court-appointed counsel at public expense.

### 17 ARMED FORCES

The armed forces of Malta numbered 2,140 in 2002 divided into three regiments. Malta spent an estimated \$60 million on defense in 2000 or 1.7% of GDP. Italy has 47 air force troops stationed in Malta.

### 18 INTERNATIONAL COOPERATION

Malta joined the UN on 1 December 1964 and participates in ECE and all the non-regional specialized agencies except IDA and IFC. A member of the Commonwealth of Nations, the Council of Europe, and G-77, Malta also is signatory to the Law of the Sea

and a member of the WTO. Malta was formally invited to join the EU in December 2002, and accession to the body is expected on 1 May 2004.

## 19 ECONOMY

Malta has few natural resources besides limestone. Agriculture is limited by the rocky nature of the islands, and most food must be imported. Industrial raw materials are lacking and also must be imported. Until 1964, the dominant factor in the economy was the presence of British military forces; with the withdrawal of UK military personnel by 1979, the dockyards were converted to commercial use. Malta's economy now relies on light industry, tourism, and other service industries, in addition to shipbuilding, maintenance, and repairs. The government holds shares in a variety of enterprises, including joint ventures. A stock exchange opened in 1992.

In 2001 GNP per capita (purchasing power parity) was \$15,000. That same year, GDP real growth was estimated at 4%. Agriculture contributed 2.8% to GDP, industry amounted to 25.5%, while services were 71.7%. Malta has an association agreement with the EU, and the government hopes to be included in the among the new entrants admitted 2003–2005.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Malta's gross domestic product (GDP) was estimated at \$7 billion. The per capita GDP was estimated at \$17,000. The annual growth rate of GDP was estimated at 2.2%. The average inflation rate in 2002 was 2.4%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 3% of GDP, industry 26%, and services 72%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled one million dollars, or about \$3 per capita. Worker remittances in 2001 totaled \$667,400. Foreign aid receipts amounted to about \$4 per capita.

## 21 LABOR

The workforce in 2002 was estimated at 160,000. In 2001 services accounted for 71% of employment, while 24% were engaged in industry and the remaining 5% in agriculture. The unemployment rate in 2002 was estimated at 7%.

Labor is highly organized in Malta, and about 63% of Malta's workers were unionized in 2002. As of that year there were 38 registered trade unions. The largest union, the General Worker's Union, although independent, is informally associated with the Labor Party. The General Workers' Union was integrated with the Socialist Labor Party until 1992, when this affiliation was formally ended. Although certain compulsory arbitration and mediation provisions limit the right to strike, workers still enjoy a broad right to strike including anti-discrimination provisions to protect striking workers' employment. Comprehensive collective bargaining is practiced.

The legal minimum working age is 16, and this is effectively enforced by the government. The standard workweek is 40 hours but workers in some trades can work up to 45 hours per week. Occupational safety and health standards are set by law but enforcement is uneven and accidents remain frequent. In 2002, the weekly minimum wage was \$112 for adults.

## 22 AGRICULTURE

Agriculture is carried out in small fields, consisting usually of strips of soil between rocks, and is characterized to a large extent by terracing. The total area under cultivation was about 11,000 ha (27,200 acres) in 1998. Most farms are small. Wheat, barley, and grapes are the principal crops for domestic consumption,

while potatoes, onions, wine, cut flowers, seeds, and fruit are the chief export crops. The total value of agricultural crops exported in 2001 was estimated at \$39.6 million, while agricultural imports amounted to nearly \$233.1 million that year.

## 23 ANIMAL HUSBANDRY

Malta's livestock population in 2001 included 19,200 head of cattle, 80,000 pigs, 17,000 sheep, 2,300 goats, and 930,000 poultry. Total meat production in 2001 was 18,000 tons, half of it pork.

## 24 FISHING

Fishing is primarily for local consumption. In 2000, the total catch was 1,039 tons. Principal species included gilthead seabream, European seabass, dolphinfish, and bluefin tuna. Exports of fish products were valued at \$7.9 million in 2000.

## 25 FORESTRY

There are no forests on the islands. In 2000, \$853.5 million in forest products were imported.

## 26 MINING

In 2001, Malta produced 30 tons of salt, obtained in the desalination of sea water; 20 hard limestone quarries yielded 2 million tons of crushed aggregates, for use in construction, lime manufacture, and as a concrete additive; 60 soft quarries produced 300,000 tons of building blocks for domestic construction, a top industry; and the country produced small amounts of cement, fertilizer, and plaster. The mining sector accounted for less than 0.5% of GDP, and the broader mineral industry economy depended mainly on trade and the storage of crude oil, refinery products, and other nonfuel mineral commodities for transshipment.

## 27 ENERGY AND POWER

Malta is totally dependent on imported fuel for its energy requirements. Electricity is the main source of power. In 2001, three thermal power stations on the main island made up Malta's total installed capacity of 250 MW; two of them, Gozo and Comino, are supplied with electric power by means of submarine cables. Production of electrical energy in 2000 was 1.75 billion kWh, of which 100% was from fossil fuels. Consumption of electricity was 1.6 billion kWh. Since 1995, the Maltese government has been exploring offshore areas for crude oil with the help of foreign companies such as Amoco, Royal Dutch Shell, and Nimir of Saudi Arabia.

## 28 INDUSTRY

Malta's principal industries are shipbuilding, maintenance, and repairs, food processing, electronics, footwear, and textiles and clothing. Other products include beverages, tobacco products, lace, metals, rubber products, and plastic goods. Total industrial production amounted to 26% of GDP in 1999, the most recent year for which figures are available. The manufacturing sector grew by 17% from 1995–99. As of 2002, Malta's manufacturing sector was seen to be benefiting from the global economic downturn. Some foreign-owned companies closed operations elsewhere in the world and concentrated a degree of production in Malta, which was considered a competitive location for manufacturing activity. Manufacturing output rose 3% in 2001.

## 29 SCIENCE AND TECHNOLOGY

Malta's technological development has been confined largely to the shipbuilding and repair industry and the manufacture of electronic computer parts. The University of Malta has faculties of dental surgery, mechanical and electrical engineering, medicine and surgery, and science. In 1988, research and development expenditures amounted to 10,000 lira; 5 technicians and 34

scientists and engineers were engaged in research and development. The Agrarian Society founded in 1844 is headquartered in Valletta. The Chamber of Architects and Civil Engineers is headquartered in St. Andrews.

### 30 DOMESTIC TRADE

Valletta is the commercial center of Malta. Most large importers prefer to distribute goods through their own shops. Small retail establishments predominate with a few larger supermarkets and outlet stores springing up in the past few years. Billboards, newspapers, radio, and television are the main advertising media.

Shopping hours are from 9 AM to 1 PM and from 3 to 7 PM. Banks are open from 8:30 AM to 2 PM, Monday–Thursday, and from 8:30 AM to 3:30 PM on Friday. Some bank branches are open on Saturdays from 8:30 AM to 12 NOON. Businesses and industries are open on weekdays from 8:30 AM to 5:30 PM and on Saturdays from 8 AM to 1 PM. Most establishments are closed on Sundays and many places have shorter hours during the summer months.

### 31 FOREIGN TRADE

Because it depends on external sources for much of its food, fuel, raw materials, and manufactured articles, Malta imports considerably more than it exports.

Most of Malta's commodity exports are electronic microcircuits (62%). Other export commodities include clothes (5.9%), refined petroleum products (4.4%), and toys (4.3%).

In 2000 Malta's imports were distributed among the following categories:

Consumer goods	11.9%
Food	7.1%
Fuels	7.2%
Industrial supplies	14.6%
Machinery	53.1%
Transportation	6.1%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	667	361	306
Singapore	378	502	-124
Germany	234	278	-44
France	195	642	-447
United Kingdom	177	273	-96
Switzerland	157	52	105
Japan	92	67	25
Italy	82	569	-487
Belgium	47	38	9
Libya	35	37	-2

### 32 BALANCE OF PAYMENTS

Traditionally, Malta has had a large trade deficit because it must import most of its food and raw materials. The expansion of industry and the improvement of living standards in recent years have further increased the deficit, which is made up by other foreign receipts in the form of tourist revenues, transfers, and financial assistance, formerly from the UK and more recently from Italy and Libya. Malta's outstanding debt stood at close to \$2 billion by the end of 1999.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Malta's exports was \$2 billion while imports totaled \$2.8 billion resulting in a trade deficit of \$800 million.

The International Monetary Fund (IMF) reports that in 2001 Malta had exports of goods totaling \$2 billion and imports totaling \$2.5 billion. The services credit totaled \$1.11 billion and debit \$791 million. The following table summarizes Malta's

balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	-172
Balance on goods	-490
Balance on services	316
Balance on income	-6
Current transfers	8
<b>Capital Account</b>	2
<b>Financial Account</b>	252
Direct investment abroad	-7
Direct investment in Malta	293
Portfolio investment assets	-446
Portfolio investment liabilities	-7
Other investment assets	1,823
Other investment liabilities	-1,406
<b>Net Errors and Omissions</b>	174
<b>Reserves and Related Items</b>	-255

### 33 BANKING AND SECURITIES

In June 1968, activities of the Currency Board were transferred to the new Central Bank of Malta. The Central Bank is responsible for the regulation of the banking system, the money supply, the issue of currency, and the administration of exchange control. The Central Bank manages the official external reserves and advises the Minister of Finance regarding the exchange rate of the Maltese lira. The Maltese lira is calculated on the basis of a currency basket, which currently consists of the ECU, pound sterling, and US dollar. Foreign reserves, excluding gold, totaled \$1,605 million at the end of 1995. There are four commercial banks—the Bank of Valletta, HSBC Bank Malta, Lombard Bank Malta, and APS Bank—as well as the National Savings Bank.

In November 1995, Midland Bank (UK) became the first foreign bank to be granted a license to operate in the domestic market. In 1999, Hong Kong and Shanghai Banking Corporation (HSBC) acquired 67.1% of the shares of Mid-Med. The bank was subsequently renamed HSBC Bank Malta and became the largest bank operating on the island. Six international banking institutions are established in Malta: Turkiye Garanti Bankas, First Austrian Bank Malta, First International Merchant Bank, Izola Bank, Bank of Valletta International, and HSBC Bank Malta. Total assets/liabilities of the deposit-money banks stood at LM1.88 billion in 1995, while the assets/liabilities of domestic and international banking institutions amounted to LM155 million and LM407.7 million, respectively.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$6.1 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 4.25%.

Turnover at the Malta Stock Exchange dropped sharply to LM75.8 million (\$70 million) in 2002, a fall of LM93.7 million compared with levels in 2001. Total market capitalization in 2002 was LM1.6 billion. In 1994 the Malta International Business Authority became the Malta Financial Services Center (MFSC), responsible for the regulation and registration of financial services provided in and from Malta.

### 34 INSURANCE

All customary types of insurance are available. Many foreign insurance companies have representatives in Malta. In 2001, there was \$72 million in life insurance written.

### 35 PUBLIC FINANCE

The principal sources of recurrent revenues are income taxes, and customs and excise taxes. Tourism is steadily increasing as an

important segment of the economy, although the September 11 terrorist attacks put a damper on it. Malta has developed a fairly high budget deficit in recent years, and fiscal policy has been dedicated to reversing the situation. Public debt grew from 24% of GDP in 1990 to 56% in 1999, but by 2000 it had been brought down to just 6.6% of GDP.

The US Central Intelligence Agency (CIA) estimates that in 2000 Malta's central government took in revenues of approximately \$1.5 billion and had expenditures of \$1.6 billion. Overall, the government registered a deficit of approximately \$100 million. External debt totaled \$130 million.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	1,500
Tax revenue	82.0%	1,231
Non-tax revenue	15.6%	234
Capital revenue	0.2%	2
Grants	2.2%	33
EXPENDITURES	100.0%	1,600
General public services	7.7%	123
Defense	1.8%	29
Public order and safety	3.8%	61
Education	11.4%	182
Health	9.6%	154
Social security	34.0%	545
Housing and community amenities	8.9%	143
Recreation, cultural, and religious affairs	1.9%	31
Economic affairs and services	13.4%	214
Other expenditures	0.1%	1
Interest payments	7.3%	117

### 36 TAXATION

In 1999, the ruling Nationalist government announced that it would raise taxes in an effort to bring the budget in line. An integral part of the new package would be measures to combat tax evasion, a phenomena that Finance Minister John Dalli characterized as a "national sport." In 1998, one of the Nationalist's first steps was the reintroduction of the value-added tax (VAT) that the previous Labor government dismantled. In 2002, the corporate tax rate was a flat 35%. Individual incomes were taxed according to a progressive schedule with rates from 15% to 35%. Social security taxes totaled 19%, 10% paid by the employer and 9% by the employee. Reduced rates were available under certain circumstances on both corporate and individual income taxes. The main indirect tax was the VAT, set at a standard rate of 15%. There were also stamp taxes.

### 37 CUSTOMS AND DUTIES

Although traditionally a protectionist state, Malta's nationalist government is moving to dismantle its trade barriers in an effort to prepare for EU accession. Customs are collected mainly in the form of ad valorem duties; there are specific duties on petroleum, spirits, and tobacco. Preferential treatment is accorded to imports from the European Union. There is also a value-added tax (VAT) of 15% on all imports.

### 38 FOREIGN INVESTMENT

Malta encourages foreign investment through tax holidays, export incentives, investment and accelerated depreciation allowances, reduced taxes on reinvested profits, grants to cover training costs and management services, a generous attitude toward repatriation of profits and capital, and few restrictions on foreign ownership of Maltese firms. No data for the total value of

foreign direct investment in Malta is available; the only investment figures that are kept are those collected by the government at the time of the original application for assistance by the companies. SGS Thomson Ltd. (Italy and France), first established in Malta in 1981, had an investment of \$266 million in machinery as of 1995.

In 1998, foreign direct investment (FDI) inflows were \$267 million, up from \$80.8 million in 1997, and then soared to \$822 million in 1999. FDI inflows fell to \$652 million in 2000 and then to \$314 million in 2001. For the period 1998 to 2000, Malta was fifth in the world in terms of success in attracting foreign investment. Malta's share of world FDI flows was 4.6 times its share of world GDP during this period.

### 39 ECONOMIC DEVELOPMENT

The Nationalist government's primary aim was to radically transform Malta's economy in an effort to meet EU standards in time for the next round of enlargement. The elimination of trade barriers, deficit reduction, and more efficient tax collection comprise the most significant elements of the government's EU-harmonization plan. Malta was formally invited to join the EU in December 2002, with accession planned for May 2004.

### 40 SOCIAL DEVELOPMENT

The National Insurance Act of 1956, as amended in 1987, provides benefits for sickness, unemployment, old age, widowhood, orphanhood, disability, and industrial injuries. Coverage includes all residents aged 16 and over, and excludes full time students and unemployed married women. Pensions are funded by contributions from employers, employees, and the government. These benefits are supplemented by social assistance under the National Assistance Act of 1956. Legislation establishing family allowances was enacted in 1974, and maternity benefits were mandated in 1981. As of 1999, employers were required to provide 13 weeks of maternity leave with pay set at a flat weekly rate.

Women make up a growing portion of the labor force due to changing social patterns and economic necessity. However, they are often channeled into traditionally female occupations or work in family-owned businesses, and remain underrepresented at the management level. Working women generally earn less than men. Domestic violence against women remains a problem but is addressed by the government through specialized police units, legal assistance, shelters, and legislation. Women have equality in matters of family law, although divorce is not legal.

The law mandates protection of all groups against economic, social, and political discrimination. The government is committed to protecting human rights, and human rights organizations are free to operate in Malta.

### 41 HEALTH

Free health services are administered by the government run polyclinics. British, Belgian, and other foreign medical personnel work in Malta's hospitals. Infant mortality decreased from 23.3 per 1,000 live births in 1973 to an estimated 5.72 in 2002. Average life expectancy at birth was 78.3 years. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 12.76 and 7.77 per 1,000 people.

### 42 HOUSING

Malta has over 111,700 dwellings; 45% of all dwellings are terraced, 20% are flats, 16% are terrans (self-contained rooms at ground level with a separate entrance accessible from the street), 11% are maisonettes, 3% are semi-detached, and 1% are farms. About 94% have cooking facilities, 98% have a refrigerator, 80% have a washing machine, and 65% have a telephone.

### 43 EDUCATION

Primary education is compulsory between the ages of 5 and 16 and is free in public schools. Maltese law requires that the teachings of the Roman Catholic Church be included in the public school curriculum, and legislation passed in 1983 requires all schools to provide free education.

In 1997, there were 35,374 pupils enrolled in primary schools. In the same year, secondary school students numbered 34,211, with approximately 3,200 teachers. The pupil-teacher ratio at the primary level was 20 to 1 in 1999. In the same year, virtually 100% of primary-school-age children were enrolled in school, while 79% of those eligible attended secondary school. All higher-level institutions and universities had 709 teaching staff and 8,260 pupils in 1997. For the year 2000, adult illiteracy was estimated at 7.9% (males, 8.6%; females, 7.2%). As of 1999, public expenditure on education was estimated at 4.8% of GDP.

Institutes of higher education include the University of Malta, the International Maritime Law Institute, and the School of Art.

### 44 LIBRARIES AND MUSEUMS

The National Library of Malta (founded in 1555) is located in Valetta and held 380,000 volumes in 2002. The University of Malta Library (1769) is in Msidaan and contains over 700,000 volumes. The largest public library is the Central Public Library in Beltissebħ with 362,000 volumes. There are over 50 school libraries throughout Malta. In 2001, Malta counted 21 total museums. Valletta is the site of the National Museum, with an archaeological collection, the Palace Armory, and the St. John's Museum. The Folk Museum and the Museum of Political History are at Vittoriosa, where a maritime museum also opened in 1992. There is an archeological museum located in a copper age temple in Mgarr and a museum of Zomon antiquities in Rabat.

### 45 MEDIA

In 1997, there were 187,000 main line phones in use throughout the country along with 17,691 mobile cellular phones.

Malta's government radio service transmits on two channels (one Maltese, one English). There are also eight private radio stations in operation. Television programs are received primarily from a local service and from Italy. As of 2001 there were 1 AM and 18 FM radio stations and 6 television stations, plus one commercial cable network. In 1997, there were 255,000 radios and 280,000 television sets throughout the country. In 2000, two Internet service providers served about 40,000 users.

The press includes daily and Sunday newspapers, published in both Maltese and English. Leading papers (with estimated 2002 circulations) are *It-Torca* (Maltese, 30,000 daily), *L'Orizzont* (Maltese, 25,000 weekly), the *Times* (English, 23,000 daily), *Il-Mument* (Maltese, 25,000 weekly), and *In-Nazzion Tagħna* (Maltese, 20,000 daily).

The constitution provides for freedom of speech and press, and the government is said to respect these rights in practice.

### 46 ORGANIZATIONS

The Chamber of Commerce is located in Valletta. There are several professional and trade organizations representing a variety of occupations. The largest independent private business

organization is the General Retailers and Traders' Union Malta's. The Malta Federation of Industry also has some influence. The Medical Association of Malta represents the interests of doctors and patients.

The Malta Cultural Institute promotes primarily the arts of music and dance. Sports associations include organizations for football and badminton. National youth organizations include the Malta Youth Labor Brigade, Nationalist Party Youth Movement, Scout Association of Malta, Student Democrats of Malta, University Student Council of Malta, University Students' Catholic Movement, and the Young Christians.

Multinational organizations based in Malta include the International Ocean Institute and Greenpeace Mediterranean. The Red Cross is active in the country.

### 47 TOURISM, TRAVEL, AND RECREATION

Malta has many scenic and historical attractions, especially in Valletta, plus excellent beaches. Soccer is the national sport, and billiards and snooker are popular pastimes. US citizens and most Western Europeans need no visa for visits of less than three months.

Tourism is a major industry, with 1,215,713 visitors in 2000 and earnings of \$614 million. That year there were 40,688 beds available in hotels and other accommodations, with a 47% occupancy rate. In 1992, a new \$60 million air terminal was opened. In 2003, the US Department of State estimated the cost of staying in Malta at \$180 per day.

### 48 FAMOUS MALTESE

The city of Valletta derives its nomenclature from Jehan Parisot de la Vallette (1494–1568), Grand Master of the Knights of St. John, who successfully withstood a great Turkish siege in 1565. Dominic (Dom) Mintoff (b.1916), a founder of Malta's Labour Party, was prime minister during 1955–58 and 1971–84. Agatha Barbara (b.1923), a former cabinet minister, was elected the first woman president of Malta on 16 February 1982. Alfred Sant (b.1948) became prime minister in 1996.

### 49 DEPENDENCIES

Malta has no territories or colonies.

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# MOLDOVA

Republic of Moldova  
*Republica Moldoveneasca*

**CAPITAL:** Chişinău

**FLAG:** Equal vertical bands of blue, yellow, and red; emblem in center of yellow stripe is Roman eagle with shield on its breast.

**ANTHEM:** *Limba Noastra (Our Tongue)*

**MONETARY UNIT:** The leu (MLD) is a paper currency, replacing the Russian rouble. As of May 2003, 1MLD = \$0.08236 (\$1 = MLD14.45) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** Independence Day, 27 August.

**TIME:** 2 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Moldova is a landlocked nation located in eastern Europe, between Ukraine and Romania. Comparatively, it is slightly larger than the state of Maryland with a total area of 33,843 sq km (13,067 sq mi). Moldova shares boundaries with Ukraine on the N, E, and S; and Romania on the W. Moldova's border length totals 1,389 km (864 mi).

Its capital city, Chişinău, is located in the south central part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Moldova consists of rolling steppe gradually sloping south toward the Black Sea.

## <sup>3</sup>CLIMATE

The climate is of the humid continental type. The country is exposed to northerly cold winds in the winter and moderate westerly winds in the summer. The average temperature in July is 20°C (68°F). The average temperature in January is -4°C (24°F). Rainfall averages 58 cm (22.8 in) a year.

## <sup>4</sup>FLORA AND FAUNA

Three-fourths of the country's terrain features chernozom (black soil), which supports the natural vegetation of steppe-like grasslands. Carp, bream, trout, and pike populate the lakes and streams.

## <sup>5</sup>ENVIRONMENT

The natural environment in Moldova suffers from the heavy use of agricultural chemicals (including banned pesticides such as DDT), which have contaminated soil and groundwater. Poor farming methods have caused widespread soil erosion. In 1996, Moldova's industrial carbon dioxide emissions totaled 12 million metric tons. As of 2001, 1.4% of Moldova's total land area is protected. Two out of 68 mammal species and 7 out of 177 breeding bird species were threatened. Threatened species include the European bison, European souslik, and the great bustard.

## <sup>6</sup>POPULATION

The population of Moldova in 2003 was estimated by the United Nations at 4,267,000, which placed it as number 116 in population among the 193 nations of the world. In that year approximately 9% of the population was over 65 years of age, with another 24% of the population under 15 years of age. There were 92 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.11%, with the projected population for the year 2015 at 4,206,000. The population density in 2002 was 126 per sq km (327 per sq mi).

It was estimated by the Population Reference Bureau that 46% of the population lived in urban areas in 2001. The capital city, Chişinău, had a population of 655,000 in that year. Tiraspol had an estimated 184,000 people; Balti (Beltsy), 162,000; and Tighina, 132,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.3%.

## <sup>7</sup>MIGRATION

There was a net emigration of 6,000 in 1979–88 to other Soviet republics. This grew to 16,300 in 1989 and 29,800 in 1990. Since independence in 1991, Moldova has experienced difficulties. A short but violent civil war in 1992—the Trans-Dniestrian conflict—resulted in the internal displacement of some 51,000 people, and the external displacement of some 56,000 refugees who fled to the Ukraine. There is no central authority in Moldova that registers and determines claims for refugee status. In 2000, the net migration rate was -2.5 migrants per 1,000 population, a significant change from -5.8 per 1,000 in 1990. The government views the immigration level as satisfactory, but the emigration level as too high.

## <sup>8</sup>ETHNIC GROUPS

The most recent estimates indicate the population is 64.5% Moldovian; Romanian; 13.8% Ukrainian; 13% Russian; 2% Bulgarian; 1.5% Jewish; and 5.2% Gagauz or other.

## **9** LANGUAGES

Moldovan, the official language, is considered a dialect of Romanian rather than a separate language. It is derived from Latin but, unlike the other Romance languages, preserved the neuter gender and a system of three cases. There are a large number of Slavonic-derived words. Under Soviet rule the language was written in the Cyrillic alphabet, but Roman script was restored in 1989. Russian and Gagauz, a Turkish dialect, are also spoken.

## **10** RELIGIONS

Though there is no state religion, the Moldovan Orthodox Church has a privileged status with the state. Over 90% of the population belong to one of two Orthodox denominations: the Moldovan Orthodox or the Bessarabian Church. About 3.6% of the population belongs to the Old Rite Russian Orthodox Church (Old Believers). Other Christian denominations include Roman Catholics, Baptists, Pentecostals, Seventh-Day Adventists, Jehovah's Witnesses, Lutherans, Presbyterians, and Mormons. The Jewish community has about 31,300 members. There are also communities of Muslims and Baha'is.

## **11** TRANSPORTATION

In 2002, railroads consisted of 1,328 km (825 mi) of track, not including industrial lines. Highways totaled 20,000 km (12,428 mi) in 2002, including 13,900 km (8,637 mi) of paved roads. Moldova has 424 km (263 mi) of inland waterways. Access to the sea is through Ukraine or Romania. There were 30 airports in 2001, seven with paved runways. Air transport is provided by Air Moldova International and Moldavian Airlines, both private carriers, and a state company, Air Moldova. In 2001, 120,100 passengers were carried on domestic and international airline flights.

## **12** HISTORY

The region that is now Moldova (also called Bessarabia) has historically been inhabited by a largely Romanian-speaking population. The region was part of the larger Romanian principality of Moldova in the 18th century, which in turn was under Ottoman suzerainty. In 1812, the region was ceded to the Russian Empire, which ruled until March 1918 when it became part of Romania. Moscow laid the basis for reclaiming Moldova by establishing a small Moldovan Autonomous Soviet Socialist Republic on Ukrainian territory in 1924.

The 1939 Nazi-Soviet pact assigned Moldova to the Soviet sphere of influence. Soviet forces seized Moldova in June 1940. After the Nazi invasion of the USSR, Germany helped Romania to regain Moldova. Romania held it from 1941 until Soviet forces reconquered it in 1944.

Moldova declared its independence from the USSR on 27 August 1991. In December, Mircea Snegur was elected the first president of the new nation. Moldova's new constitution was adopted on 28 July 1994, replacing the old Soviet constitution of 1979. The Agrarian Democratic Party, composed largely of former Communist officials, won a majority of seats in the new parliament elected the same year.

Although independent, Moldova has remained one of the poorest countries in Europe and has confronted internal problems with two breakaway regions, the predominantly Turkish Gagauz region in the southern part of the country, and the largely Russian Transdnistria region east of the Dniester River. Russian forces have remained in the latter region and have supported its Russian population in proclaiming an independent "Transdnistria Republic," with which the Moldovan government was still trying to reach a political settlement as of 2003.

Petru Lucinschi (Independent), former speaker of the parliament, defeated Snegur in a December 1996 presidential runoff election (54% to 46%) and became Moldova's new president early in 1997. The following year, Moldova's Communist Party won a parliamentary majority in legislative elections. By 1999 Lucinschi was seeking to strengthen the nation's presidency in order to overcome an extended stalemate between the executive branch and parliament that was preventing the government from effectively addressing the nation's pressing economic problems. In a referendum, voters approved constitutional changes proposed by Lucinschi, but they were rejected by the parliament.

In July 2000, parliament cancelled the direct election of the president, and he or she is now elected by parliament for a four-year term. Parliament failed to chose a new president by December 2000, and early parliamentary elections were held in February 2001. Communists took 71 of 101 seats, and in April, Vladimir Voronin, head of the Communist Party, became president. Voronin campaigned on a platform of protecting human rights, continuing the process of democratization, and ensuring that citizens had adequate food, employment, and medical care. In February 2003, Voronin, a native of Transdnistria, proposed a new initiative to settle the dispute with Transdnistria. He called for a new constitution that would turn Moldova into a loose confederation of two states, and grant the Russian language official status. Both Moldova and Transdnistria would have their own governing and legislative bodies, and budgets. Defense, customs, and monetary systems would be common for the federation. However, when in January 2002 plans had been announced to make Russian an official language and compulsory in school, mass protests were held, and ended only when the plans were revoked. As of February 2003, Russia maintained 2,500 troops in Transdnistria, although in 1999 it agreed to withdraw all of its troops by 2001. The situation in Transdnistria is complicated by fears among the Slavic population of Moldova's unification with Romania. On the other hand, at the beginning of 2003, consultations were taking place on the possible entry of Moldova into a union with Russia and Belarus.

## **13** GOVERNMENT

Elections to Moldova's first post-independence parliament were held on 27 February 1994. The parliament consists of a single chamber of 101 seats, and members are elected for four-year terms on the basis of proportional representation. Prior to 2000, the president was directly elected. As of July 2000, however, the president is elected by parliament for a four-year term and may serve no more than two consecutive terms. The president nominates the prime minister upon consultation with parliament. The cabinet is selected by the prime minister, subject to approval by parliament.

The July 1994 constitution and the law provide for freedom of speech, press, assembly, and religion; however, the law requires that religious groups register with the government. Peaceful assembly is allowed; however, permits for demonstrations must be approved and political parties and private organizations are required to register with the government.

Reforms approved in 1995 authorized the creation of a court to deal with constitutional issues and a system of appeals courts.

## **14** POLITICAL PARTIES

Although 26 parties or coalitions of parties participated in the February 1994 elections, only four received more than the 4% of the national vote required to gain seats.

The Agrarian Party had been the largest political group in the parliament with a plurality of 46 seats, following the departure of 10 deputies in 1995. They left to join a new party, the Party of Renewal and Conciliation, headed by then-president Mircea





LOCATION: 47°0' N; 29°0' E. BOUNDARY LENGTHS: Total boundary lengths, 1,389 kilometers (864 miles); Romania, 450 kilometers (280 miles); Ukraine, 939 kilometers (584 miles).

Snegur. The Socialist-Edenstro bloc had 26 seats, while the pro-Romanian parties, the Popular Front and the Peasants and Intellectuals bloc, had 11 and 9 seats, respectively.

Although the Party of Moldovan Communists won the single largest number of parliamentary seats (40) in the elections held on 22 March 1998, they had insufficient support to form a governing coalition and thus remained an opposition party, while the governing coalition consisted of the Democratic Convention of Moldova (26 seats), the Bloc for a Democratic and Prosperous Moldova (24), and the Party of Democratic Forces (11).

Twelve political parties or blocs participated in the parliamentary elections held on 25 February 2001. Three of them gained seats in parliament: the Communist Party, 71; the centrist Braghis Alliance (led by Dumitru Braghis) of the Social-Democratic Alliance of Moldova, 19; and the conservative Christian Democratic People's Party, 11.

## 15 LOCAL GOVERNMENT

Following administrative reforms, Moldova's 40 districts, or *raions*, have been reorganized into nine counties, one municipality (Chișinău), and two territorial units (Transnistria and Gagauzia).

The Russian minority on the east bank of the Dniester River have proclaimed their independence as the "Transnistria Republic," but it has not been recognized by the Moldovan government, which is, however, willing to allow this region a degree of autonomy. The predominantly Turkish Gagauz region has also been granted autonomy.

## 16 JUDICIAL SYSTEM

There are courts of first instance, an appellate court, a Supreme Court, and a Constitutional Court. The Supreme Court is divided into civil and criminal sections.

The Constitutional Court was created in 1995. A 1995 judicial reform law provided for a system of appeals courts.

There are district courts of the first instance and five regional tribunals. The Higher Appeals Court and the Supreme Court are both in Chișinău. However, as of 2003, there was a backlog of cases at the tribunal and the Higher Appeals Court levels, due to lack of funding.

The Superior Court of Magistrates nominates and the president appoints judges for an initial period of five years. The judges may be reappointed for a subsequent 10 years and finally, on their third term, they serve until retirement age. The judiciary is more independent now than when it was subject to the Soviet regime. The Constitutional Court made several rulings in 1996 that demonstrated its independence. For example, in April 1996 the Constitutional Court found that the attempted dismissal of Defense Minister Creanga by President Snegur was unconstitutional. The Constitutional Court also overturned a Central Electoral Commission decision to exclude a presidential candidate from competing in the November 1996 election. And in 2000, the Court ruled that legislation requiring political parties to be registered for two years prior to participating in elections was unconstitutional.

Criminal defendants enjoy a presumption of innocence and are afforded a number of due process rights, including a public trial and a right of appeal. In practice, a number of convictions have been overturned on appeal.

## 17 ARMED FORCES

In 2002 the active armed forces numbered approximately 7,200, with reserves of 66,000. The army had 5,560 personnel and the air force numbered 1,400. The paramilitary consists of 3,400 internal troops and 900 riot police. Defense expenditures in 2001 were \$6 million or 0.4% of GDP. Moldova has peacekeeping forces in Russia, and Russia has 1,000 troops stationed in Moldova.

## 18 INTERNATIONAL COOPERATION

Moldova was admitted to the UN on 2 March 1992, and is a member of the ECE, IAEA, ICAO, ILO, OSCE, IMF, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, WMO, WTO and the World Bank. A member of the CIS, the country is also applying for membership in other international organizations. The United States opened its embassy in the capital city on 18 March 1992. Moldova joined NATO's Partnership for Peace on 16 March 1994. It is also a member of the Council of Europe.

## 19 ECONOMY

At 51% of GDP in 2000, services comprise the most important sector of Moldova's economy, while agriculture accounted for 28%. The country's wide range of crops provides significant export revenue and employment.

Moldova has no major mineral deposits and must import all of its supplies of coal, oil, and natural gas. Since the breakup of the Soviet Union in 1991, energy shortages have contributed to sharp production declines. Moldova is seeking alternative energy sources and working to develop its own energy supplies including solar power, wind, and geothermal. The country is implementing a national energy conservation program.

In 1998, the Moldovan economy experienced an 8.6% decline due primarily to fallout from the financial crisis in Russia, by far its biggest export market. Continuing financial turmoil in Ukraine and Romania hurt Moldova's exports, which were needed to pay for imports of fuel from these countries. About one-fourth of Moldova's external debt burden, which peaked at 75% of GDP in 2000, is traceable to energy imports from Russia, which has on occasion suspended gas supplies, and from the Ukraine and Romania, both of which have on occasion suspended electricity power to Moldova. Further isolation occurred in 1999 when the IMF halted loans following the refusal of the Moldovan parliament to carry out privatization plans. By year's end, the Moldovan economy had contracted to roughly one-third of its 1989 level, with end of period inflation soaring to 45.8%. In 2000, the contraction was halted with real GDP growth of 2.2%, and in December, the government entered into a three-year arrangement with the IMF under its Poverty Reduction and Growth Facility (PRGF). Although average inflation for 2000 was 31.3%, by the end of the year the rate had moderated to 18.5%. In 2001 and 2002, inflation has been reduced to single digits: 6.4% and 8%, respectively, according to preliminary estimates. Real growth was 6.1% in 2001 and an estimated 4.8% in 2002. The external debt burden had eased somewhat to 58% of GDP.

The GDP purchasing power parity was \$11.3 billion (est.) in 2001 with GDP per capita for that period at \$2,200 (PPP), down \$100 from 1998.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Moldova's gross domestic product (GDP) was estimated at \$11 billion. The per capita GDP was estimated at \$3,000. The annual growth rate of GDP was estimated at 4%. The average inflation rate in 2002 was 5.5%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 28% of GDP, industry 23%, and services 49%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$3.26 million or about \$1 per capita and accounted for approximately 0.3% of GDP. Worker remittances in 2001 totaled \$1.1 million. Foreign aid receipts amounted to about \$28 per capita and accounted for approximately 8% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$692. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 8%. Approximately 31% of household consumption was spent on food, 11% on fuel, 3% on health care, and 15% on education. The richest 10% of the population accounted for approximately 30.7% of household consumption and the poorest 10%

approximately 2.2%. It was estimated that in 2001 about 80% of the population had incomes below the poverty line.

## 21 LABOR

Total civilian employment in 1998 was 1.7 million of which 14% were in industry; 40% in agriculture, and 46% in other sectors, including services. The unemployment rate in 2002 was 8%. Approximately 25% of working age Moldovans are employed outside the country.

The law provides workers with the right of association, including the right to form and join labor unions. The General Federation of Trade Unions of Moldova (GFTU) is the successor to the previously existing Soviet trade union system. Various industrial unions still maintain voluntary membership in the GFTU, and there have been no attempts to form alternate trade union structures. Government workers do not have the right to strike, nor do those in essential services such as health care and energy. Unions in the private sector may strike if two-thirds of their membership assents. Collective bargaining is used to negotiate workers pay and benefits.

The unrestricted minimum working age is 18, with restrictions as to the number of hours that may be worked for those between 16 and 18 years of age. Children generally do not work except in agriculture on family farms. The labor code stipulates a standard workweek of 40 hours, with at least one day off weekly. In 2002, the monthly minimum wage was \$9.00 in the public sector and \$12.75 in private firms. The median salary was estimated to be \$39 per month.

## 22 AGRICULTURE

Cropland covers about 69% of the Moldovan land area. Agricultural activities engaged 40% of the labor force in 1999. Agriculture is the most important sector of the Moldovan economy, accounting for 26% of GDP and 64% of exports in 2001. Agricultural output had an average annual decline of 13.7% during 1990–2000. In 2000, state-controlled farms accounted for only 1.2% of gross agricultural production, down from 10.2% in 1995. About 14% of all cropland is under irrigation.

Moldovan crops and their 1999 production amounts (in tons) include: sugar beets, 1,005,000; wheat, 782,000; grapes, 300,000; corn, 1,139,000; sunflowers, 284,000; barley, 181,000; potatoes, 329,000; and soybeans, 3,000.

Wine and tobacco products are important agricultural exports. Wine production totaled 184,000 tons in 1999, and overall tobacco production was 21,000 tons. All tobacco is grown on state farms; the monopoly and lack of buyers has limited privately grown tobacco.

## 23 ANIMAL HUSBANDRY

About 13% of the total land area consists of pastureland. In 2001, the livestock population included 394,000 head of cattle, 447,000 pigs, 830,000 sheep, 109,000 goats, and 13,000,000 chickens. Pork production amounted to 44,000 tons in 2001, when 16,000 tons of beef were produced. In 2001, 560,000 tons of cow's milk and 34,500 tons of eggs were also produced.

## 24 FISHING

With no direct connection to the Black Sea, fishing is limited to the Dnister River. The total catch in 2000 was 151 tons, with carp accounting for 87% of the landings. Commercial fishing is not a significant part of the national economy.

## 25 FORESTRY

Forested areas accounted for about 9.9% of the total land area in 2000. Production is largely domestically consumed; wood and paper product imports in 2000 amounted to \$23.4 million.

## 26 MINING

Moldova did not possess significant mineral resources. More than 100 deposits of gypsum, limestone, sand, and stone were exploited. Production totals for 2000 were: gypsum, 32,100 tons (18,500 in 1999); sand and gravel, 277,000 cu m (346,700 in 1997); lime, 31,000 tons (19,900 in 1996); and cement, 222,000 tons (50,000 in 1999, and 121,800 in 1997). Moldova also produced crude steel, peat, oil, and natural gas.

## 27 ENERGY AND POWER

Moldova has scant oil reserves and no refineries. Refined oil products and natural gas come from Russia, Ukraine, and Belarus, accounting for 99% of the fuel supply for Moldova's thermal power plants. In 2001 Moldovans consumed about 21,000 barrels of oil per day. Natural gas consumption fluctuates from year to year, totaling 1.4 billion cu m (49.42 billion cu ft) in 1995 and 2.1 billion cu m (74 billion cu ft) in 2000. Moldova has a modest coal industry, with reserves estimated at 3 billion tons in 2002.

Generating capacity has declined since Moldova gained its independence in 1992 due to lack of funds, civil disturbances, and a general economic downturn in the 1990s. Total installed generating capacity in 2001 was 1,030,000 kW. Total electricity generation in 2000 was 3.4 billion kWh, of which 90.4 % was from fossil fuels and 9.6 % from hydropower. Consumption of electricity in 2000 was 3.7 billion kWh. Moldova traditionally has exported electricity to Ukraine and Bulgaria.

Moldova has implemented a national energy conservation program and is seeking alternative energy sources for self-sufficiency. It is developing programs for solar, wind, and geothermal power.

## 28 INDUSTRY

Moldova's industry, including processed food, is composed of approximately 600 major and mid-sized enterprises and associations. It accounts for 23% of Moldova's GDP.

In 1998 the most prominent industries were: food processing (57%), electric energy (18%), engineering and metal processing (5%); production of construction materials (4%), light industry (5.4%), and forestry, wood processing, pulp and paper (3%). Other industrial products include agricultural machinery, foundry equipment, shoes, hosiery, textiles, washing machines, and refrigerators and freezers.

In the wake of the economic downturn in 1998, Moldova's industrial production declined 11% from the previous year. Growth in industrial output was a component of improved economic performance in 2001, as industrial output registered a 3.1% growth rate that year.

## 29 SCIENCE AND TECHNOLOGY

The Moldovan Academy of Sciences, founded in 1961, has sections of physico-mathematical sciences, biological and chemical sciences, technical sciences, agricultural sciences, and medical sciences, and 14 research institutes concerned with the natural sciences. Four scientific institutes conduct medical and agricultural research. Moldovan State University, founded in 1945, has faculties of physics, mathematics and cybernetics, chemistry, biology, and soil science. The Technical University of Moldova, founded in 1964, and the Chişinău Medical Institute and State Agricultural University of Moldova, founded in 1932, are located in Chişinău. M.V. Frunze Agricultural Institute is another educational institution in the sciences. In 1987-97, science and engineering students accounted for 52% of university enrollment. In the same period, there were 330 scientists and 1,641 technicians per million people engaged in research and development.

## 30 DOMESTIC TRADE

Chişinău is the main commercial center, with a well-developed system for product distribution. Both national and foreign firms have a strong presence within the retail sector. Since two-thirds of Moldova is rural, local farm markets play an important role in the domestic economy. A great deal of progress had been made in liberalizing and privatizing the economy. With US assistance, nearly all of the nation's farmlands were under private ownership as of 2000. As of January 2003, nearly 2,000 small, medium, and large-sized enterprises had also been transferred to private ownership.

In purchasing power parity terms, per capita gross domestic product (GDP) was \$3,000 in 2002.

## 31 FOREIGN TRADE

Traditionally, Moldova has maintained a trade surplus with the other Soviet republics and a trade deficit with the rest of the world. However, today, Moldova's only significant trade surplus is with Russia. Total imports almost double total exports.

A trade agreement between the United States and Moldova providing reciprocal most-favored-nation tariff treatment became effective in 1992. The same year, an overseas Private Investment Corporation agreement, encouraging US private investment by providing direct loans and loan guarantees, was signed. In 1993 a bilateral investment treaty was signed between the United States and Moldova; a general system of preferences status was granted in 1995 as well as the availability of EX-IM bank coverage.

Wine tops the list of Moldova's export commodities (24%), followed by apparel (16%). Other exports include tobacco (6.5%), glassware (5.7%), and meat (5.4%).

In 2000 Moldova's imports were distributed among the following categories:

Consumer goods	17.6%
Food	5.9%
Fuels	32.4%
Industrial supplies	28.2%
Machinery	13.0%
Transportation	2.7%
Other	0.2%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Russia	210	120	90
Romania	38	119	-81
Italy	36	49	-13
Germany	36	88	-52
Ukraine	36	106	-70
Belarus	22	32	-10
United States	16	48	-32
France	8	20	-12
Hungary	5	13	-8
Bulgaria	4	14	-10

## 32 BALANCE OF PAYMENTS

External debt stood at \$1.3 billion in 2002. That year, \$168.7 million in debt service payments were due, accounting for over 60% of all budget revenues. The government took the dramatic step of handing 50% of ownership of its gas lines to Russia's Gazprom, one of its largest creditors. In 2000, the IMF had approved a three-year \$142 million loan to reduce poverty and promote growth, which was due to expire in December 2003.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Moldova's exports was \$590 million while imports totaled \$980 million resulting in a trade deficit of \$390 million.

The International Monetary Fund (IMF) reports that in 2001 Moldova had exports of goods totaling \$570 million and imports totaling \$882 million. The services credit totaled \$170 million and debit \$219 million. The following table summarizes Moldova's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-109</b>
Balance on goods	-313
Balance on services	-48
Balance on income	109
Current transfers	143
<b>Capital Account</b>	<b>-2</b>
<b>Financial Account</b>	<b>31</b>
Direct investment abroad	...
Direct investment in Moldova	94
Portfolio investment assets	-3
Portfolio investment liabilities	4
Other investment assets	-39
Other investment liabilities	-23
<b>Net Errors and Omissions</b>	<b>45</b>
<b>Reserves and Related Items</b>	<b>35</b>

### 33 BANKING AND SECURITIES

Moldova's banking sector will play a key role in the country's transition from a managed economy to a market economy. The banking system was reformed in 1991. The National Bank of Moldova (NBM, the central bank) is charged with implementing monetary policy and issuing currency. State banks include the State Savings Bank, with 1,000 branches, and the Bank for Foreign Economic Exchange. Holdovers from the old Soviet system include three regional banks, which have been changed to joint-stock companies whose shares are owned by state enterprises. There are 20 commercial banks in the country with licenses to perform international transactions. The currency unit is the leu, introduced in late November 1993.

November 1993 was a turning point for Moldova's financial stability. The NBM became a fully independent central bank with its own administrative council, and was no longer required to finance industrial and agricultural funding shortfalls. As the leu was introduced, the NBM started phasing out credit emissions. As of January 1994, the NBM became fully responsible for monetary policy.

The bank has two policy instruments: reserve requirements which were raised progressively throughout 1994, and interest rates. The discount rate reached a peak of 377% in February 1994, and was kept high despite the subsequent dramatic fall in inflation. As of 2001, the money market rate was 11%.

The banking system comprises four former Soviet banks, Agroindbank, Molindconbank, Moldotsbank, and the Savings Bank, as well as 20 commercial banks at the end of 2002. As in many other republics of the former Soviet Union, licensing procedures in the early 1990s were quite lax, with the result that the country is now overbanked, with too many small institutions, and a relatively high level of non-performing loans (11% of total commercial bank balance sheets as of mid-1996).

Moldova's 15 voucher funds have played an important role in the privatization program. Most citizens have opted to invest their vouchers in the funds rather than directly acquire shares in newly privatized companies.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$194.3 million. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$377.1 million. The money market rate, the rate at which financial institutions lend to one another in the short term, was 11%.

The Chişinău-based Moldovan Stock Exchange opened for business in June 1995. Trading is electronic and is based on an order-driven system. As of mid-1996, it listed 11 shares. The most actively traded shares are Cupicini Canning Factory and Banea de Economii. As of 1998, there were 15 investment funds and eight trust companies. A commodities exchange is planned. The government began auctioning 91-day treasury bills in 1995 and introduced 730-day treasury bills in 1997.

Foreign currency reserves at the NBM rose by one-third in 1996, from \$226.7 million at end-1995 to \$304.1 million. This is to be explained by the substantial inflows of funds from multilateral institutions, notably, the World Bank and the European Bank for Reconstruction and Development. In December 1996, Moldova made its debut in the international bond market with a \$30 million floating rate note issued as a private placement through Merrill Lynch. The bond has a call option effective in two years time.

### 34 INSURANCE

The demand for insurance services continues to rise. Forty companies employing 2,800 persons competed for the insurance market in 1998.

### 35 PUBLIC FINANCE

In 1993, following independence, Moldova undertook a massive privatization program. By January 2003, 80% of all housing units were in private hands, as were nearly all small, medium, and large businesses. Agriculture was privatized ending in 2000 through a US-sponsored program called "Pamint" (land).

The US Central Intelligence Agency (CIA) estimates that in 1998 Moldova's central government took in revenues of approximately \$536 million and had expenditures of \$594 million. Overall, the government registered a deficit of approximately \$58 million. External debt totaled \$1.3 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>536</b>
Tax revenue	83.2%	446
Non-tax revenue	7.1%	38
Capital revenue	1.5%	8
Grants	8.2%	44
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>594</b>
General public services	4.4%	26
Defense	1.5%	9
Public order and safety	5.1%	30
Education	4.8%	28
Health	4.4%	26
Social security	42.4%	252
Housing and community amenities	0.2%	1
Recreation, cultural, and religious affairs	1.1%	7
Economic affairs and services	4.2%	25
Other expenditures	15.2%	90
Interest payments	16.7%	99

### 36 TAXATION

The personal income tax rate ranges from 10-50%; the corporate rate ranges from 15-40% with a standard rate of 32%. Payroll taxes are charged at rates of 4.7-30%. Also levied is a 20% value-added tax (VAT). A reduced rate applies to bread, milk and gas. For five years, 2002 to 2007, a number of housing projects will be exempt from VAT.

### 37 CUSTOMS AND DUTIES

Moldova's foreign trade environment is characterized by extensive export and import tariffs, exhaustive license requirements, and export quotas. Under the provisions of a 2001 budget law, all imports are assessed a 5% tax of their customs cost regardless of their country of origin. Moldova also levies customs tariffs on all imports except those from the former Soviet Union, Romania, the European Union, and a select group of countries with which Moldova has free trade agreements. Excise taxes apply to automobiles (30%), alcoholic beverages (50%), electronics (50%), and cigarettes (70%). Since 1998 most imports are subject to a value-added tax (VAT) that amounts to 20% of the customs value of the goods. Grain and medical supplies may be imported duty-free.

### 38 FOREIGN INVESTMENT

With the exception of certain state-controlled enterprises, current legislation does not restrict foreign capital participation in Moldavian enterprises. Some foreign equity participation in privatization of government-owned enterprises is also possible. Land under privatized enterprises can now be owned by the enterprise owners. Barriers in Moldova to foreign investment involve the underdeveloped banking, insurance, legal, and trade services.

In 1997 and 1998, average annual foreign direct investment (FDI) inflows into Moldova had reached \$77 million, up from about \$24 million in 1996. In 1998, the financial crisis in Russia, which accounts for a 30% share of Moldova's inward FDI, helped reduce inflows to \$40.6 million for the year, but in 2000 and 2001, record levels of FDI inflows of \$143 million and \$160 million, respectively, were attained. Total FDI stock has increased 22 times over since independence. The total stock of FDI in Moldova reached \$620 million in 2001, equivalent to 36% of GDP and about 82% of gross fixed capital formation (compared to the world average of 22%). Moldova's share of world inflows of FDI from 1998 to 2000, while small in absolute terms, was 1.7 times its share of world GDP.

### 39 ECONOMIC DEVELOPMENT

In March 1993, the Moldovan government inaugurated the Program of Activity of the Government 1992–95 to make the transition to a market-oriented economy. The first stage focused on stabilization, including price liberalization, and the second stage concentrated on economic recovery and growth, including privatization, agrarian reform, infrastructure development, social protection, and trade reform. However, the government was slow to institute privatization in the agricultural sector. Although the government backed privatization, freed prices and interest rates, and removed export controls, economic growth was difficult. By 1998, Moldova's economy stood at one-third its 1989 level. In large part, this decline is due to unfavorable circumstances: the Transnistrian conflict, the collapse of the Soviet Union, the near-total loss of the grape crop in 1997, and the Russian 1998 financial crisis.

As of 2002, close to 2,000 small, medium, and large enterprises had been privatized, as were 80% of all housing units. Nearly all of Moldova's agricultural land is privatized as well. In 2000, Moldova negotiated a three-year \$147 million Poverty Reduction and Growth Facility (PRGF) Arrangement with the International Monetary Fund (IMF), to expire in December 2003. Moldova joined the WTO in 2001. That year, the government adopted laws to combat money laundering and the financing of terrorism. The economy had turned around: spurred by industrial growth and a good harvest in 2001, real gross domestic product (GDP) growth increased by 6%. Nevertheless, Moldova carries a heavy external debt burden, and depends upon international financial support, including from the private sector.

### 40 SOCIAL DEVELOPMENT

A social insurance system provides benefits for old age, disability, and survivorship in addition to worker's compensation for injury and unemployment, and family allowances. These programs are financed by 38% contributions from employers in agriculture and industry, and 1% from employees (23% if self-employed). The government contributes the whole cost of social pensions for those who are excluded from coverage from the national social security system. Medical care is available to all residents. Moldova has comprehensive legislation for the protection of children, including programs for paid maternity leave, a birth grant, and family allowances.

Although women are accorded equal rights under the law, they are underrepresented in government and other leadership positions. Nevertheless, the president of the country's largest bank is a woman, and women constitute a growing percentage of public-sector managers. Several women's organizations participate in political or charitable activities. Domestic violence remains a problem and is rarely prosecuted.

The constitution provides for equality under the law regardless of race, sex, disability, religion, or social origin, but discrimination persists. Violations occur particularly against the Romani and Moldovan speakers in the separatist Transnistrian region. Human rights are generally observed and respected, although there were reports of mistreatment of prisoners and detainees. Prison conditions remain harsh.

### 41 HEALTH

Moldova has been working on developing its own standards for health care. As of 1999, there were an estimated 3.5 physicians and 12.1 hospital beds per 1,000 people. Total health care expenditures in 1999 were 6.4% of GDP.

The 1999 birth rate was 14 per 1,000 people, with 64,740 births that year. The maternal mortality rate was 34 per 100,000 live births between 1989–1995. Average life expectancy was 68 years in 2000. The infant mortality rate for 2000 was 18 per 1,000 live births. The overall death rate was estimated at 12.6 per 1,000 people as of 2002. In 1992, there were approximately 1,000 deaths from ethnic conflict within the country. In 1995, nearly the entire urban population (96%), but only 9% of the rural population, had access to sanitation.

In 1997, Moldova's immunization rates for children up to one year old were: tuberculosis, 99%; diphtheria, pertussis, and tetanus, 97%; polio, 98%; and measles, 99%. Despite high immunization rates, 2,626 cases of tuberculosis and 3,951 cases of measles were documented in 1995. In 1999, there were 130 reported cases of tuberculosis per 100,000 people. Epidemic diphtheria has spread throughout the new independent states of the former Soviet Union. In Moldova there was an 11% increase in diphtheria cases from 1994 to 1995. As of 1999, the number of people living with HIV/AIDS was estimated at 4,500 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.2 per 100 adults.

### 42 HOUSING

In 2000, there were about 1.3 million housing units nationwide. Though the government has encouraged privatization of housing and individual home ownership. Most residents, particularly in urban areas, find home ownership to be far too expensive in a poor economy. The existing housing stock is in serious disrepair. Most structures were built before 1980 and maintenance has been poor. Only about 28.9% of all dwellings have an indoor bathroom; only 31% have access to a sewage system. About 62% of all households use wells as a primary source of water. In 1999, only 2,900 structures were completed. Most new housing is built with brick or stone and concrete frames.

### 43 EDUCATION

While Moldova was a part of the Soviet Union, its education system was based on the Soviet pattern, and Russian was the language of instruction. However, after its separation, extensive changes were introduced in the education system. In 1996, educational expenditure amounted to 9.7% of GNP and approximately 28.1% of total government expenditure.

Education is compulsory for 11 years, between the ages of 6 and 17. In 1997, primary schools enrolled 320,725 students and employed 14,097 teachers. Student-to-teacher ratio stood at 23 to 1. In the same year, secondary schools had 445,501 students and 28,615 teachers.

The Moldovan State University was founded in 1945 and uses both Moldovan and Russian as languages of instruction. In 1997, all institutions of higher education had a combined enrollment of 93,759; teaching staff totaled 8,814. For the year 2000, adult illiteracy was estimated at 1.1% (males, 0.4%; females, 1.7%).

### 44 LIBRARIES AND MUSEUMS

The National Library at Chişinău holds 418,000 volumes. The Scientific and Technical Library of Moldova, holds 600,000 volumes. The country's largest library, at the State University of Moldova, has 1.82 million volumes, including a valuable rare books collection. The Technical University of Moldova has 1.04 million volumes. The country had a public library system of 1,601 branches in 1995 holding a total of 18.9 million volumes.

The State Art Museum is in the capital. In addition, Moldova has a number of historical and archaeological museums.

### 45 MEDIA

Telecommunications links are via land line to the Ukraine and through Moscow's switching center to countries beyond the former USSR. In 1997, there were 627,000 main line telephones in use as well as 2,200 mobile cellular phones. Radio Kishinev and Kishinev Television broadcast in Romanian and Russian. As of 1998, there were 7 AM and 50 FM radio stations. In 1995, there was only one major television station, but 2001 reports indicate there are a number of smaller, local stations in operation and the country receives broadcasts from Romania, France, and Russia. In 2000 there were about 758 radios and 297 television sets for every 1,000 people. About two Internet service providers served 15,000 users in 2000.

A wide variety of political views and commentaries are expressed through a number of newspapers and periodicals. National and city governments sponsor newspapers, as do political parties, professional organizations, and trade unions. The largest newspapers in 2002 were *Moldova Suverana* (Sovereign Moldova, circulation 105,000), *Nezavisimaya Moldova* (Independent Moldova, 60,692), and *Viata Satului* (Life of the Village, 50,000).

The constitution provides for free speech and a free press, and the government is said to generally respect these rights.

### 46 ORGANIZATIONS

The Chamber of Commerce and Industry of the Republic of Moldova handles the internal and external economic affairs of the country. Political associations and organizations in the country include the Union of Council of Labor Collectives (ULC), Ecology Movement of Moldova (EMM), the Christian Democratic League of Women of Moldova, and the Alliance of Working People of Moldova.

The Academy of Sciences of Moldova works to promote public interest and education in scientific fields. The NGO Club was formed to assist in the development and consolidation of various organizations, as well as to serve as an informational network between groups. National women's organizations include the Women's Organization of Moldova (est. 1996) and the Gender in Development (GID) Project (est. 1994). International organizations with national chapters include Save the Children and the Red Cross.

### 47 TOURISM, TRAVEL, AND RECREATION

Picturesque scenery and several wineries are the primary attractions of Moldova. Unfortunately, civil unrest since Moldova's independence has caused a decline in tourism. In 2000 there were 18,964 tourist arrivals and tourism receipts totaled \$46 million per year.

The US government estimated the cost of staying in Moldova in 1998 at \$175 per day.

### 48 FAMOUS MOLDOVANS

Petru Lucinshi was elected president in the 1 December 1996 second round presidential elections. He succeeds Mircea Snegur.

### 49 DEPENDENCIES

Moldova has no territories or colonies.

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# MONACO

Principality of Monaco  
*Principauté de Monaco*

**CAPITAL:** The seat of government is at Monaco-Ville.

**FLAG:** The national flag consists of a red horizontal stripe above a white horizontal stripe.

**ANTHEM:** *Hymne Monégasque*, beginning “Principauté Monaco, ma patrie” (“Principality of Monaco, my fatherland”).

**MONETARY UNIT:** Monaco uses the euro and all monetary restrictions in effect in France apply also in Monaco. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911). Monégasque coins also circulate; denominations are 10, 20, and 50 centimes, and 1, 2, 5, 10, and 50 francs. Fr1 = \$0.17699 (or \$1 = Fr5.65) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year’s Day, 1 January; St. Dévôte, 27 January; Labor Day, 1 May; Assumption, 15 August; All Saints’ Day, 1 November; National Day, 19 November; Immaculate Conception, 8 December; Christmas, 25 December. Movable religious holidays include Easter Monday, Ascension, Pentecost Monday, and Fête-Dieu.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The second-smallest country in Europe and the world after the Vatican, Monaco is situated in the southeastern part of the French department of Alpes-Maritimes. The area, including recent reclamation, is 195 ha (482 acres), or 1.95 sq km (0.75 sq mi). Comparatively, the area occupied by Monaco is about three times the size of the Mall in Washington, D.C. The principality’s length is 3.18 km (1.98 mi) E–W, and its width is 1.1 km (0.68 mi) N–S. Bounded on the N, NE, SW, and W by France and on the E and SE by the Mediterranean Sea, Monaco has a total border length of 8.5 km (5.3 mi), of which 4.1 km (2.5 mi) is coastline.

## <sup>2</sup>TOPOGRAPHY

There are four main areas (determined more by economic activity than geographic difference): La Condamine, the business district around the port; Monte Carlo, the site of the famous casino, which is at a higher elevation; Monaco-Ville, on a rocky promontory about 60 m (200 ft) above sea level; and Fontvieille, a 22 ha (54 acre) industrial area of La Condamine that was reclaimed by landfill in the 1960s and 1970s.

## <sup>3</sup>CLIMATE

Winters are mild, with temperatures rarely falling below freezing and with a January average of about 8°C (46°F). Summer heat is tempered by sea breezes; the average maximum in July and August is 26°C (79°F). Rainfall averages about 77 cm (30 in) a year, and some 300 days a year have no precipitation whatsoever.

## <sup>4</sup>FLORA AND FAUNA

Palms, aloes, carobs, tamarisks, mimosas, and other Mediterranean trees, shrubs, and flowers are abundant. Monaco does not have a distinctive fauna.

## <sup>5</sup>ENVIRONMENT

Monaco is noted for its beautiful natural scenery and mild, sunny climate. The principality has sponsored numerous marine

conservation efforts. Its own environment is entirely urban. According to UN reports, Monaco’s environmental circumstances are very good. The nation has consistently monitored pollution levels in its air and water to ensure the safety of its citizens. One-fifth of the nation’s land area (1.95 sq km) and two marine areas are protected by environmental statutes.

The government has also instituted a system of air pollution control facilities controlled by the Environmental Service. Citizens are encouraged to use public transportation to limit the amount of gas emissions.

Similar techniques have been applied to the protection of Monaco’s water supply. Noise levels from industry and transportation are also monitored to ensure safe levels.

Monaco also has a sea-farming area which annually produces 800 tons of fish grown in clean water. Monaco is known for its activity in the field of marine sciences. The Oceanographic Museum, formerly directed by Jacques Cousteau, is renowned for its work and exhibits on marine life.

## <sup>6</sup>POPULATION

The population of Monaco in 2003 was estimated by the United Nations at 32,000, which placed it as number 188 in population among the 193 nations of the world. In that year approximately 23% of the population was over 65 years of age, with another 15% of the population under 15 years of age. There were 91 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.92%, with the projected population for the year 2015 at 38,000. The population density in 2002 was 17,503 per sq km (45,333 per sq mi), making Monaco the most densely populated nation in the world. 100% of the population lives in urban area. Most of the people in Monaco are resident foreigners.

## <sup>7</sup>MIGRATION

There is a long waiting list for Monégasque citizenship. A 1992 law allows Monégasque women to confer citizenship on their children. In 1999, the net migration rate was 4.17 migrants per

1,000 population. In 2000, more than two-thirds of the residents were non-citizens. The government views the migration levels as satisfactory.

## **8**ETHNIC GROUPS

On the evidence of certain place names, the native Monégasques are said to be of Rhaetian stock; they make up only 16% of the population. The foreign residents are a highly cosmopolitan group: 47% are French; 16% are Italian; and various other groups comprise the remaining 21%. French citizens are treated as if in France.

## **9**LANGUAGES

French is the official language. English and Italian are also widely spoken. Many inhabitants speak the Monégasque language, which has its origins in the Genoese dialect of Italian and the Provençal language of southern France.

## **10**RELIGIONS

About 90% of the population adheres to Roman Catholicism, which is the official state religion. Freedom of worship is guaranteed by the constitution. Monaco is also part of the diocese of Gibraltar of the Church of England. There are five Catholic churches and one cathedral in the principality, two Protestant churches, and one Jewish synagogue. Though there are a small number of Muslims, there are no mosques.

## **11**TRANSPORTATION

French national roads join Monaco to Nice toward the west, and to Menton and the Italian Riviera toward the east. In 2002 there were 50 km (31 mi) of paved roadways. There is frequent bus service. The principality itself is served by motorbuses and taxicabs. In 1995 there were 17,000 passenger cars and 4,000 commercial vehicles. The southeastern network of the French national railroad system serves Monaco with about 1.7 km (1 mi) of track. Express trains on the Paris-Marseille-Nice-Ventimiglia line pass through the principality. Monaco is only 10 km (6 mi) from the international airport at Nice and is connected with it by bus and by a helicopter shuttle service. In 2001, 77,800 passengers were carried on domestic and international airline flights. The harbor provides access by sea.

## **12**HISTORY

The ruling family of Monaco, the house of Grimaldi, traces its ancestry to Otto Canella (c.1070–1143), who was consul of Genoa in 1133. The family name, Grimaldi, was adapted from the Christian name of Canella's youngest son, Grimaldo. The Genoese built a fort on the site of present-day Monaco in 1215, and the Grimaldi family secured control late in the 13th century. The principality was founded in 1338 by Charles I, during whose reign Menton and Roquebrune were acquired. Claudine became sovereign upon the death of her father, Catalan, in 1457. She ceded her rights to her husband and cousin, Lambert, during whose reign, in 1489, the duke of Savoy recognized the independence of Monaco. The first Monégasque coins were minted in the 16th century. Full recognition of the princely title was obtained by Honoré II in 1641.

The last male in the Grimaldi line, Antoine I, died in 1731. His daughter Louise-Hippolyte in 1715 had married Jacques-François-Léonor de Goyon-Matignon, Count of Thorigny, who adopted the name Grimaldi and assumed the Monégasque throne. France annexed the principality in 1793, but independence was reestablished in 1814. The following year, the Treaty of Stupinigi placed Monaco under the protection of the neighboring kingdom of Sardinia. In 1848, the towns of Roquebrune and Menton, which constituted the eastern extremity of Monaco, successfully rebelled and established themselves as a republic. In 1861, a year after the Sardinian

cession of Savoy and Nice to France, Roquebrune and Menton also became part of that nation.

The economic development of Monaco proceeded rapidly with the opening of the railroad in 1868 and of the gambling casino. Since that time, the principality has become world famous as a tourist and recreation center. Gambling, operated by Société des Bains de Mer, a state controlled group, recorded a 30% increase in gambling receipts in 1998. Real estate and retail sales have also registered strong growth in recent years. Monaco has no unemployment and provides jobs for 25,000 Italian and French commuters. More than half of government revenues, however, come from value-added tax. The rate levied by France is also in effect in Monaco. France has the highest VAT in the European Union and has come under pressure to adjust its rate downward in conformity with the rest of the EU. Light industry and banking have also become important. Monaco joined the United Nations on 28 May 1993.

## **13**GOVERNMENT

Monaco is a constitutional monarchy ruled, until 2002, by the hereditary princes of the Grimaldi line. Prior to constitutional changes made in 2002, if the reigning prince were to die without leaving a male heir, Monaco, according to treaty, would be incorporated into France. Because Prince Rainier III's son Albert was a 43-year-old bachelor in 2002, without male heirs, and his own health was failing, Rainier changed Monaco's constitution to allow one of his two daughters, Caroline or Stephanie, to inherit the throne and preserve the Grimaldi dynasty.

On 7 January 1911, Monaco's first constitution was granted by Prince Albert I. On 29 January 1959, Prince Rainier III temporarily suspended part of the constitution because of a disagreement over the budget with the National Council (Conseil National), and decreed that the functions of that body were to be assumed temporarily by the Council of State (Conseil d'État). In February 1961, the National Council was restored and an economic advisory council established to assist it.

A new constitution was promulgated on 17 December 1962. It provides for a unicameral National Council of 18 (now 24) members elected every five years (now 16 by majority vote and 8 by proportional representation); it shares legislative functions with the prince. Executive operations are conducted in the name of the prince by a minister of state (a French citizen) with the assistance of the Council of Government, consisting of three civil servants who are in charge of finances, public works, and internal affairs, respectively. All are appointed by the prince.

Women were enfranchised for municipal elections in 1945, and participated in elections for the National Council for the first time in February 1963. Until 2003, suffrage was exercised only by trueborn Monégasques of 21 and over. Naturalized Monégasques were granted voting rights in 2003 and the voting age was reduced to 18.

## **14**POLITICAL PARTIES

Monaco does not have political parties as such, but candidates compete on the basis of various lists. Major political groups have been the National and Democratic Union (Union Nationale et Démocratique—UND), founded in 1962; Communist Action (Action Communale—AC); Évolution Communale (EC); and the Movement of Democratic Union (MUD). In the general election of February 1998, the UND took all 18 seats in the National Council. Elections held on 9 February 2003 were the first under a new electoral law establishing 24 seats in the National Council. A unified opposition list, the Union for Monaco, composed of the National Union for the Future of Monaco and the Rally for the Monégasque Family, took 58.5% of the vote and 21 seats, to the UND's 41.5% and 3 seats. The introduction of proportionality voting enabled the UND to obtain its seats.





LOCATION: 43°43' 49" N; 7°25' 36" E. BOUNDARY LENGTHS: France, 5.4 kilometers (3.4 miles); Mediterranean coastline, 7.3 kilometers (4.5 miles). TERRITORIAL SEA LIMIT: 12 miles.

## 15 LOCAL GOVERNMENT

Municipal government is conducted by an elected council (*Conseil Communal*) of 15 members, headed by a mayor. The council members are elected by universal suffrage for four-year terms, and the mayor is chosen by the Communal Council. The three communes that made up Monaco before 1917—Monaco-Ville, La Condamine, and Monte Carlo—each had its own mayor from 1911 to 1917. Since that date, they have formed a single commune, together with Fontvieille.

Anne Marie Campora became mayor of Monte Carlo in 1991 succeeding Jean-Louis Médecin who had served as mayor since 1971. Georges Marsan was elected mayor of Monte Carlo in 2003.

## 16 JUDICIAL SYSTEM

A justice of the peace tries petty cases. Other courts are the court of first instance, the court of appeal, the court of revision, and the criminal court. The highest judicial authority is vested in the Supreme Court, established as part of the 1962 constitution, which interprets the constitution and sits as the highest court of appeals. It has five full members and two assistant members,

named by the prince on the basis of nominations by the National Council and other government bodies.

The Code Louis, promulgated by Prince Louis I (d.1701) and based on French legal codes, was formally adopted in 1919. Under the 1962 constitution the prince delegates his authority to the judiciary to render justice in his name.

The legal guarantee of a fair and public trial for criminal defendants is respected in practice. Defendants have the right to counsel at public expense if necessary.

## 17 ARMED FORCES

France assumed responsibility for the defense of Monaco as part of the Versailles Treaty in 1919. There is no army in the principality. A private guard protects the royal family, and a police force of 390 ensures public safety.

## 18 INTERNATIONAL COOPERATION

A treaty providing in detail for mutual administrative assistance between France and Monaco became operative on 14 December 1954. Fiscal relations between the two countries are governed by a convention signed on 18 May 1963. France may station troops in Monaco and make use of Monaco's territorial waters. As a result of a customs union with France and French control of Monaco's foreign policy, the principality operates within the European Union.

Monaco joined the UN on 28 May 1993 and is a member of the ECE, FAO, IAEA, ICAO, IMO, ITU, ISCE, UNCTAD, UNESCO, UPU, WHO, and WIPO. It is a signatory of the Law of the Sea, and is an applicant to the Council of Europe.

## 19 ECONOMY

Monaco depends for its livelihood chiefly on income from tourism, real estate, financial services, and small, high value-added, non-polluting industry. A substantial part of the principality's revenue from tourist sources comes from the operations of Sea-Bathing Co. (*Société des Bains de Mer—SBM*), in which the government holds a 69% interest. The SBM operates the gambling casino at Monte Carlo as well as four hotels, 19 restaurants, a cabaret, and the Thermos Margins spa. Its reported profits in 2002 were about \$21 million, down from close to \$30 million in 2001. The government also retains monopolies in telephone services, postal services and tobacco. A 22 ha landfill project at Fontvieille increased Monaco's total land area. Land reclamation since Prince Rainier's accession to the throne in 1949 has increased Monaco's territory by 23%.

The principality does not publish statistics on its economy and all estimate are rough. The government annual income was estimated at \$586 million for 1997, about 25% derived from tourism. Monaco also serves as a tax haven for foreign non-French residents. In 2000 the OECD published a list of "uncooperative tax havens" that included Monaco. Two years later, Monaco was still on the list, though 31 other jurisdictions had been removed by promising to take corrective actions.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 1999 Monaco's gross domestic product (GDP) was estimated at \$870 million. The per capita GDP was estimated at \$27,000. The average inflation rate in 2001 was 1%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange.

## 21 LABOR

There is virtually no unemployment in Monaco, as the Prince guarantees all his subjects lifetime employment. The major employer of the working population is the SBM; others work in

industry or in service establishments. As of 1994, the labor force was approximately 30,000, of which 4,000 worked in the industrial sector, 2,200 in construction, and 1,500 in the financial sector.

Owners and workers are each grouped in syndicates. There were some 35 unions grouped in a union federation representing about 10% of the workforce in 2002. However, most of these union workers commute from outside the principality; about two-thirds of all employees commute from France and Italy. Unions operate independently of the government and political parties. The rights to strike, organize, and bargain collectively are protected by law, although public government workers may not strike. Labor disruptions are infrequent.

The minimum working age is 16, although special restrictions apply until the age of 18. Employers who violate the minimum age laws can be criminally prosecuted. The standard workweek is 39 hours. The minimum wage is the French minimum plus an additional 5% to adjust for travel costs for commuters. In 2002, this wage was equivalent to \$6.30 per hour. This provides a family with a decent standard of living, and most workers earn more than the minimum. Health and safety standards are rigorously enforced.

## 22 AGRICULTURE

There is no agriculture.

## 23 ANIMAL HUSBANDRY

There is a dairy industry serving local needs.

## 24 FISHING

Some fishing is carried on to meet domestic requirements. The annual catch was 3,000 tons in 2000. Monaco actively engages in marine science research, and in marine life preservation. The Oceanographic Institute has been studying the effects of radiation in the ocean since 1961.

## 25 FORESTRY

There are no forests.

## 26 MINING

There was no mining.

## 27 ENERGY AND POWER

Services are provided by the Monégasque Electric Co. and Monégasque Gas Co. In 1991, standby electrical capacity totaled 10,000 kW; power is supplied by France.

## 28 INDUSTRY

The tourist industry dominates Monaco's economic life, but small-scale industries produce a variety of items for domestic use and for export, contributing 11.6% of business turnover in the mid-1990s. Most industrial plants are located on Fontvieille. About 700 small businesses make pottery and glass objects, paper and cards, jewelry, perfumes, dolls, precision instruments, plastics, chemicals and pharmaceuticals, machine tools, watches, leather items, and radio parts. There are flour mills, dairies, and chocolate and candy plants, as well as textile mills and a small shipyard. The chemicals, pharmaceuticals, and cosmetics industries consisted of 23 companies with 1,000 employees that generated approximately 45% of the total industrial turnover in the 1990s. Due to territorial constraints, Monaco's industries are forced to expand their facilities upward; some industrial buildings rise as high as 13 stories. A new construction project begun in 2001 was extending the pier used by cruise ships in the main harbor.

## 29 SCIENCE AND TECHNOLOGY

Marine sciences have been the focus of scientific inquiry in the principality for several decades. Prince Albert (1848–1922), who reigned in Monaco during the early 1900s, was well-known internationally for his work as an oceanographer, and he inaugurated the Oceanographic Museum of Monaco at Monaco-Ville in 1910. His interest led to the establishment of a focus on oceanography for scientific pursuits in Monaco. Jacques-Yves Cousteau, a famous oceanographer and activist, was involved with Monaco's activities in marine life research.

In March 1961, in its first research agreement concluded with a member government, the International Atomic Energy Agency, with the government of Monaco and the Oceanographic Institute in Monaco, undertook to research the effects of radioactivity in the sea. The Oceanographic Institute put at the disposal of the project a number of valuable facilities, including marine-biology laboratories, oceanographic vessels, specialized fishing equipment, and a wide variety of electronic and monitoring equipment.

The Scientific Center of Monaco, founded in 1960 at Monte Carlo, conducts pure and applied research in oceanology and the environment. The Museum of Prehistoric Anthropology, founded in 1902 at Monte Carlo, is concerned with prehistory and quaternary geology.

## 30 DOMESTIC TRADE

Domestic trade practices are similar to those in other towns along the French Riviera. Specialty shops deal primarily in tourist souvenirs. The SBM controls most of the amusement facilities and owns most major hotels, sporting clubs, workshops, a printing press, and various retail shops. In the mid-1990s, commerce represented 21% of the economic turnover in Monaco. There is no personal income tax. Business taxes are low, but still account for about 50% of government income. Tourism and related services account for about 25% of revenues.

Advertising media include magazines, billboards, and motion pictures. General business hours are from 8:30 AM to 12:30 PM and from 2 to 6 PM, Monday–Friday. Banking hours are 9 AM to 12 noon and 2 to 4 PM, Monday–Friday.

## 31 FOREIGN TRADE

Statistical information is not available. Foreign trade is included in the statistics for France, with which Monaco has a customs union.

## 32 BALANCE OF PAYMENTS

The economy is driven by such foreign currency-earning activities as banking and tourism. Since separate records are not kept of Monaco's foreign trade transactions, payment statistics are not available.

## 33 BANKING AND SECURITIES

Foreign currency circulates within Monaco under the supervision of the French government. The most important local bank is Crédit Foncier de Monaco, founded in 1922. As of 1994, there were 45 banks operating in Monaco. In 1999, an Monaco's banking industry had approximately 310,000 accounts and employed 1,700 people. The vast majority of customers were nonresidents. Total assets in 1998 was estimated at a little over \$44 billion.

There is no securities exchange.

## 34 INSURANCE

Branches of French insurance companies provide life, fire, accident, and other forms of insurance. They include: CGRM-Compagnie Générale de Réassurance de Monte Carlo; Concorde; Mutuelle de Marseille Assurances Compagnie Générale de

Réassurance; and the Shipowners' Mutual Strike Insurance Association (Bermuda)—all located in Monte Carlo.

### 35 PUBLIC FINANCE

The US Central Intelligence Agency (CIA) estimates that in 1995 Monaco's central government took in revenues of approximately \$518 million and had expenditures of \$531 million including capital expenditures of \$8.4 million. Overall, the government registered a deficit of approximately \$13 million. External debt totaled \$13 million.

### 36 TAXATION

There are no personal income taxes. Indirect taxes include the following: a value-added tax, over at 19.6% in 2002, reduced from 20.6% 1 April 2000; a service tax on compensation received by Monégasque firms for services rendered in Monaco and France; excise taxes on alcoholic beverages; registration fees; and warranty duties on gold, platinum, and silver jewelry. Monaco is treated as part of France for VAT purposes.

There is a tax of up to 35% on the profits of businesses that obtain more than one-fourth of their gross profits from operations outside Monaco. Corporations whose income is derived from royalties, licenses, trademarks, or other industrial or artistic property rights are subject to this tax, whether or not the income arises outside Monaco. There are no inheritance or gift taxes between spouses or between parents and children. Between brothers and sisters, the rate is 8%; between uncles or aunts and nephews or nieces, 10%; between other relatives, 13%; and between unrelated persons, 16%. Monaco grants no tax concessions to new businesses.

### 37 CUSTOMS AND DUTIES

By treaty, France and Monaco form a customs union that treats the Monaco coast as part of France. The French customs service collects the duties on cargoes discharged in Monaco and pays a share to the principality.

Monaco imposes a duty on all exports to places other than France; the levy applies whether the transfer of goods is actual or fictitious.

### 38 FOREIGN INVESTMENT

Monaco permits foreign businesses to establish their headquarters in its territory; ownership and management must be made a matter of public record. Although both corporations and limited partnerships with shares are allowed, in fact only corporations are in existence. Two persons may form a corporation; the minimum capital must be fully subscribed and at least one-fourth paid up front. Foreign companies may establish subsidiaries in Monaco. Low taxes on company profits are a considerable incentive for locating in Monaco.

### 39 ECONOMIC DEVELOPMENT

The government strenuously promotes Monaco as a tourist and convention attraction. A government-financed International Convention Center offers large conference rooms, projection equipment, television and radio recording studios, telex communications, and simultaneous translation into five languages.

Two major development and reclamation projects have been undertaken under Prince Rainier. These are the major landfill and reclamation project at Fontvieille, and the Monte Carlo Bord de Mer. At Fontvieille, the government financed the reclamation of 220,000 sq m (2,368,000 sq ft) of inundated shore, creating a "platform" for residential construction and new port facilities.

The Monte Carlo seashore scheme, also government-financed, involved the relocation of railroad tracks underground in order to create a man-made beach, with a boardwalk and other tourist attractions. The beach lies between two other land reclamation

projects: the Larvotto, a sports complex financed by SBM, and the Portier, an entertainment complex developed by the government.

Near the Larvotto the government has reserved a zone for the construction of residential and tourist accommodations. In the 1980s, Monaco concentrated on the development of business tourism, with the construction of the Monte Carlo Convention Center and the International Conference Center.

### 40 SOCIAL DEVELOPMENT

The social insurance system provides old age, survivorship and disability pensions. It is funded through employee and employer contributions. Sickness and maternity benefits are available to all employed persons with a special program for the self-employed. Workers and their dependents are reimbursed for medical expenses including primary and specialized care, pharmaceuticals, hospitalization, transportation, dental care and appliances. Employers are required to provide workers' compensation through private insurance plans. Unemployment benefits are provided through the French system. There is also a family allowance, a prenatal allowance and an education grant.

Women have become increasingly visible in public life, and are well represented in the professions. Equal pay for equal work is prevalent, although women are underrepresented in business. Reports of violence against women are rare, and domestic abuse is a criminal offense. Gender bias in the law persists in regard to transmission of citizenship: only men who become naturalized Monegasque citizens can transmit citizenship to their children.

Human rights are respected in Monaco.

### 41 HEALTH

In 1995, there were 42 physicians in the country as well as 31 dentists, 64 pharmacists, and 293 nurses. As of 1998 there were 6.6 physicians, 16.2 nurses, 0.4 midwives, 1.2 dentists, and 2.2 pharmacists per 1,000 people. The entire population has access to safe water and sanitation.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 9.6 and 12.9 per 1,000 people. In 2002, the infant mortality rate was estimated at 5.6 per 1,000 live births and the fertility rate at 1.8 children per woman. The immunization rates for children under one year of age during 1994 were as follows: diphtheria, tetanus, and whooping cough, 99%; polio, 99%; measles, 98%; and tuberculosis, 90%.

In 1996, 37 AIDS cases were reported.

### 42 HOUSING

In the mid-1990s, there were approximately 12,000 principal residences in Monaco. In recent years, the government has stressed the construction of luxury housing. All new construction or alteration of existing buildings requires government approval.

### 43 EDUCATION

Education is offered in Monaco from the preschool to the secondary and technical levels and is compulsory from age 6 to 16. Attendance is 90%, and virtually all adults are literate. In the latter half of the 1990s, approximately 5.3% of total government expenditure was allocated to education.

In 1997, Monaco's seven public primary schools had a total of 1,919 students enrolled. In the same year, secondary schools enrolled 2,886 students and employed 281 teachers. The pupil-teacher ratio at the primary level was estimated at 16 to 1 in 1999.

### 44 LIBRARIES AND MUSEUMS

The palace archives include the private collections of the princes of Monaco, as well as a collection of money minted since 1640. The Louis Notari Library in Monaco (1909) has a collection of over 285,000 volumes. There is a Princess Grace Irish Library in

Monaco featuring 1,500 pieces of Irish folk music and personal papers of Princess Grace and Prince Rainier.

The Oceanographic Museum in Monaco-Ville, founded in 1910 by Prince Albert I and previously directed by the noted Jacques-Yves Cousteau, contains a library of 50,000 volumes, an aquarium, and displays of rare marine specimens. In addition to the museum, the Oceanographic Institute conducts research in various marine areas, including the effects of radiation on the sea and its life forms.

The Exotic Gardens include thousands of varieties of cacti and tropical plants. The National Museum in Monte Carlo was established 1972. There is a Museum of Prehistoric Anthropology in Monte Carlo and a wax museum. There is a Napoleonic Museum in Monaco-Ville.

#### 45 MEDIA

Postal and telegraphic services are operated by France, but Monaco issues its own postage stamps. Local telephone service is controlled by Monaco, while France is responsible for international service. As of 1995 there were about 31,027 main line telephones in use.

Radio Monte Carlo and Télé Monte Carlo provide radio and television services and have had broadcast programs since 1954. Radio Monte Carlo's home service is broadcast in French. The system also provides overseas service in 12 foreign languages and is majority owner of the Cyprus-based Radio Monte Carlo relay station, a privately funded religious broadcasting service in 35 languages under the name Trans World Radio. As of 1999, Monaco had 3 AM and 4 FM radio stations and 5 television stations. In 1997, there were 34,000 radios and 25,000 television sets throughout the country.

Two dailies in Nice, *Nice-Matin* and *L'Espoir*, publish special editions for Monaco. International publications are readily available. The *Journal de Monaco*, an official publication, appears once a week, and the *Tribune de Monaco* is published biweekly.

Freedom of expression is legally guaranteed. However, there is a Penal Code prohibition on public denunciations of the ruling family. Otherwise, the government is said to uphold free speech and a free press.

#### 46 ORGANIZATIONS

Monaco is the seat of the International Academy of Tourism, which was founded in 1951 by Prince Rainier III. The academy publishes a quarterly, *Revue Technique du Tourisme*, and, in several languages, an international dictionary of tourism.

The International Hydrographic Bureau, which sponsors international conferences in its field, has its headquarters in Monaco. The following international organizations also have their headquarters in Monaco: International Commission for Scientific Exploration of the Mediterranean Sea, International Center for Studies of Human Problems, and the International Commission for Legal-Medical Problems.

National youth organizations include the Association of Scouts and Guides of Monaco, the Princess Stephanie Youth Center, and Catholic Youth of Monaco.

Other organizations include the Monégasque Red Cross, the St. Vincent de Paul Society, the Society of Monégasque Traditions, the Commission for the Monégasque language (established 1985), and the Union of French Interests.

#### 47 TOURISM, TRAVEL, AND RECREATION

Monaco has been famous for attracting wealth and titled tourists since its gambling casino was established at Monte Carlo in 1856. However, gambling now accounts for only about 3.3% of state revenue. Among the many attractions are the Louis II Stadium, the many museums and gardens, and the beach. The Monte Carlo opera house was the site of many world premiere performances, including Massenet's *Le Jongleur de Notre Dame* (1902) and *Don Quichotte* (1910), Fauré's *Pénélope* (1913), and Ravel's *L'Enfant et les sortilèges* (1925). It was also the home of Serge Diaghilev's Russian Ballet (founded in 1911), later known as the Ballet Russe de Monte Carlo.

The principality has excellent sports facilities. The Monte Carlo Rally, a world-famous driving championship, ends with a finish line in Monaco.

No restriction is placed on the entrance of persons from France into Monaco. Those remaining for longer than three months or who plan to work or conduct a business in Monaco must apply to the police for an identity card.

In 2000, approximately 300,000 visitors arrived in Monaco. The principality had 2,240 hotel rooms that year with an overall occupancy rate of 72%.

In 2001 the US government estimated the cost of staying in Monaco at between \$226 and \$269 per day.

#### 48 FAMOUS MONEGASQUES

Prince Albert (1848–1922), who reigned from 1889 to 1922, was famous as an oceanographer. In 1956, his great-grandson Rainier III (b.1923), reigning monarch since 1949, married Grace Patricia Kelly (1929–82), a US motion picture actress, whose death on 14 September 1982 following an automobile accident was mourned throughout Monaco. Their son, Prince Albert (b.1958) is the heir apparent; Princess Caroline (b.1957) and Princess Stéphanie (b.1965) are their daughters.

#### 49 DEPENDENCIES

Monaco has no territories or colonies.

#### 50 BIBLIOGRAPHY

Duursma, Jorri. *Self-Determination, Statehood, and International Relations of Micro-States: The Cases of Liechtenstein, San Marino, Monaco, Andorra, and the Vatican City*. New York: Cambridge University Press, 1996.

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# NETHERLANDS

Kingdom of the Netherlands  
*Koninkrijk der Nederlanden*

**CAPITAL:** Constitutional capital: Amsterdam. Seat of government: The Hague ('s Gravenhage; Den Haag)

**FLAG:** The national flag, standardized in 1937, is a tricolor of red, white, and blue horizontal stripes.

**ANTHEM:** *Wilhelmus van Nassouwen* (*William of Nassau*).

**MONETARY UNIT:** The guilder was replaced by the euro as official currency as of 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Queen's Day, 30 April; National Liberation Day, 5 May; Christmas, 25–26 December. Movable religious holidays include Good Friday, Holy Saturday, Easter Monday, Ascension, and Whitmonday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in northwestern Europe, the Netherlands has a total area of 41,526 sq km (16,033 sq mi), of which inland water accounts for more than 7,643 sq km (2,951 sq mi). The land area is 33,883 sq km (13,082 sq mi). Comparatively, the area occupied by the Netherlands is slightly less than twice the size of the state of New Jersey. The Netherlands extends 312 km (194 mi) N–S and 264 km (164 mi) E–W. The land area increases slightly each year as a result of continuous land reclamation and drainage. The Netherlands is bounded on the E by Germany on the S by Belgium, and on the W and N by the North Sea, with a total boundary length of 1,478 km (918 mi), of which 451 km (280 mi) is coastline.

The capital city of the Netherlands, Amsterdam, is in the western part of the country.

## <sup>2</sup>TOPOGRAPHY

The country falls into three natural topographical divisions: the dunes, the lowlands or “polders” (low-lying land reclaimed from the sea and from lakes and protected by dikes), and the higher eastern section of the country. About 27% of the land lies below sea level. A long range of sand dunes on the western coast protects the low alluvial land to the east from the high tides of the North Sea, and farther east and southeast are found diluvial sand and gravel soil. The highest point of land, the Vaalserberg, is situated in the extreme south and is 321 m (1,053 ft) above sea level; the lowest point, 7 m (23 ft) below sea level, is Prins Alexanderpolder, an area of reclaimed land situated northeast of Rotterdam. The most extensive polder is that of East Flevoland in the province of Flevoland; it has an area of nearly 55,000 ha (136,000 acres). Many dikes have been constructed along the lower Rhine and Meuse (Maas) rivers, as well as on a portion of the North Sea coast and along nearly the whole of the coast of the former Zuider Zee (formally called the IJsselmeer since its enclosure by a dike in 1932). There are many canals in the country, most of which have numerous locks.

## <sup>3</sup>CLIMATE

The Netherlands has a maritime climate, with cool summers and mild winters. The average temperature is 2°C (36°F) in January and 19°C (66°F) in July, with an annual average of about 10°C (50°F). Clouds generally appear every day, and in the winter months fog often abounds, while rainfall occurs frequently. Average annual rainfall is about 76.5 cm (30 in). The mild, damp climate is ideal for dairying and livestock raising, but the limited sunshine restricts the growing of food crops.

## <sup>4</sup>FLORA AND FAUNA

Plants and animals that thrive in temperate climates are found in the Netherlands. The most common trees are oak, elm, pine, linden, and beech. The country is famous for its flowers, both cultivated varieties (best known among them the Dutch tulip) and wild flowers such as daisies, buttercups, and the purple heather that blooms on the heaths in September. Birds are those characteristic of Western and Central Europe, with large numbers of seagulls swarming over the coastal areas from time to time. Many kinds of fish abound along the North Sea coast and in the lakes and rivers. Wild or large animals are practically nonexistent.

## <sup>5</sup>ENVIRONMENT

In recent years, as a result of rapid population and economic growth, the government has placed increased emphasis on preservation of the natural environment. One key concern is the pressure put on the countryside, traditionally the domain of the smallholder, by the demands of modern mechanized agriculture and the needs of a large urban population for recreational areas and waste disposal. To help solve this environmental problem, the government has instituted comprehensive land-use planning by means of a system of zoning that indicates the priorities for land use in each zone. Air and water pollution are significant environmental problems in the Netherlands.

The nation has one of the world's highest levels of industrial carbon dioxide emissions, which totalled 155 million metric tons

in 1996. Efforts at controlling air pollution reduced sulphur dioxide emissions between 1980 and 1990 from 490,000 tons to 240,000 tons. Severe pollution of the country's rivers results from industrial and agricultural pollution, including heavy metals, organic compounds, nitrates, and phosphates.

The Netherlands has 11 cu km of renewable water resources, of which 68% is used for industrial purposes. Solid waste in the nation's cities amounts to an average of 7.6 million tons yearly. Aggravating the situation are the prevailing southwesterly winds, which carry the pollutants from coastal industries inland, and the great rivers that carry pollution into the Netherlands from originating countries farther inland.

In 1971, the Ministry of Health and Environment was established; a countrywide system of air pollution monitoring by the National Institute of Public Health has been in place since 1975. Since the mid-1970s, discharges of heavy metals into industrial wastewater and emissions of most major air pollutants from industrial use of fossil fuels have been substantially reduced. Progress has also been recorded in reducing automotive emissions. An excise tax surcharge on gasoline and diesel fuel was imposed for pollution abatement in 1981.

As of 2001, 5.7% of the country's total land area was protected. Six mammal species and three bird species are threatened with extinction. Endangered species include Atlantic sturgeon, slender-billed curlew, Atlantic ridley, and Spengler's freshwater mussel.

## 6 POPULATION

The population of the Netherlands in 2003 was estimated by the United Nations at 16,149,000, which placed it as number 58 in population among the 193 nations of the world. In that year approximately 14% of the population was over 65 years of age, with another 19% of the population under 15 years of age. There were 98 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.50%, with the projected population for the year 2015 at 16,791,000. The population density in 2002 was 395 per sq km (1,023 per sq mi). Over 45% of the population lives in the three most densely populated provinces: Utrecht, North Holland, and South Holland.

It was estimated by the Population Reference Bureau that 89% of the population lived in urban areas in 2001. The capital city, Amsterdam, and its surrounding metropolitan area, had a population of 1,137,000 in that year. The Rotterdam metropolitan area had 1,078,000 inhabitants. Other major cities include The Hague, 444,242; Utrecht, 231,231; Eindhoven, 192,895; Groningen, 168,702; Tilburg, 158,846; and Haarlem, 149,474. According to the United Nations, the urban population growth rate for 2000–2005 was 0.3%.

## 7 MIGRATION

Although the government has encouraged emigration to curb overpopulation, more people have migrated to the Netherlands than have left the country in recent years. Rapid economic growth in the 1960s drew many unskilled laborers from Mediterranean countries, and during the 1970s many people left Suriname for Holland when the former Dutch colony became independent. At first both groups settled mainly in the western region, but after 1970 the pattern of internal migration changed, as increasing numbers left the western provinces to settle in the east and south. The traditional pattern of migration from the countryside to the cities has likewise been altered, and since the 1970s the trend has been largely from the larger cities to small towns and villages.

In 1990, 57,344 persons left the Netherlands, of which 36,749 were Dutch nationals. Of these, 56% went to other European countries, 8% to the United States, and 11% to the Netherlands Antilles or Suriname. In the same year, 81,264 immigrants arrived

in the Netherlands, representing an increase of 24% over 1989. Of the total, 17% came from Suriname and the Netherlands Antilles, while about 13% were Turks. Of the 692,000 aliens residing in the Netherlands in 1991 (4.6% of the population), 204,000 were Turkish nationals, 157,000 were Moroccan, 44,000 were Germans, and 39,000 were British.

The Netherlands has seen a steady increase in the number of asylum-seekers. At the beginning of 1996, there were 72,000 recognized refugees and 23,000 applications for asylum. By 1998, as many as 45,217 asylum applications were submitted. The main countries of origin were Iraq (8,300), Afghanistan (7,118), the Federal Republic of Yugoslavia (4,289), Bosnia and Herzegovina (3,769), and Somalia (2,775). In 1999, 4,060 people were evacuated from Macedonia to the Netherlands. The evacuees, as well as Kosovars who had already sought asylum in the Netherlands but whose cases were still pending or had already been rejected, were granted temporary protection. In 1999, the net migration rate was 1.99 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The Dutch are an ethnically homogeneous people descended from Frankish, Saxon, and Frisian tribes. Ethnic homogeneity slightly changed as a result of the arrival of some 300,000 repatriates and immigrants from Indonesia, mostly Eurasian, and more than 140,000 from Suriname. The influx of Turks and other workers from the Mediterranean area has further added to the ethnic mix. The most recent estimates (1999) indicate that 83% of the total population are Dutch; Moroccans, Turks, Antilleans, Surinamese, Indonesians, and other groups comprise the remaining 17%.

## 9 LANGUAGES

Dutch is the official language in all of the 12 provinces. It is also the universal tongue, except in Friesland, where most of the inhabitants speak the ancient Frisian language. Frisian, the native language of about 300,000 persons, is closely related to the Anglo-Saxon tongue but has many points in common with Dutch, which belongs to the Germanic language group. Many Netherlanders speak and understand English, French, and German, which are taught in secondary schools. Six Dutch dialects—notably Gelders and Groningen—are spoken in addition to Frisian.

## 10 RELIGIONS

Complete religious liberty is provided for by the constitution, and a tradition of tolerance is well established. As of 2002, an estimated 30% were nominally Roman Catholics; 15% were Dutch Reformed; 7% were Calvinist Reformist; 8% were non-Christian (Muslim, Hindu, Jewish, or Buddhist); and some 40% were atheist or agnostic.

Dutch society is becoming increasingly secular. According to the government's Social Cultural Planning Bureau, church membership has steadily declined from 76% in 1958 to 41% in 1995 and continues to decrease. Only about 26% of all members are active in their religious community. The Dutch Reformed Church, whose membership has declined by more than 50% since 1900, is the largest Protestant denomination and is strongest in Drenthe Province, in neighboring Groningen Province, and in Overijssel. Other reformed churches are particularly strong in Friesland and Zeeland. Roman Catholicism is widespread in North Brabant and Limburg. Other Christian denominations include Baptist, Lutheran, and Remonstrant. The Jewish community has about 20,000 members. The Muslim community has about 750,000 members, or about 4.5% of the total population. However, many of them are migrant workers from Morocco and Turkey or immigrants from other countries such as Iraq, Somalia, and Bosnia. There are about 90,000 Hindus, primarily from Suriname. About 17,000 people are Buddhist.



LOCATION: 50°45' to 53°52' N; 3°21' to 7°13' E. BOUNDARY LENGTHS: Germany, 577 kilometers (358 miles); Belgium, 450 kilometers (280 miles); North Sea coastline, 451 kilometers (280 miles). TERRITORIAL SEA LIMIT: 12 miles.

### 11 TRANSPORTATION

Merchant shipping has always been of great economic importance to the seagoing Dutch. The Netherlands Maritime Institute is internationally famous, and the Dutch ship-testing station at Wageningen is known for its research in marine engineering. The Dutch merchant marine had 622 ships (1,000

GRT or over) totaling 4,587,662 GRT in 2002. Emphasis has been placed on the development of new vessels suitable for container transport and on improving the Dutch tanker fleet. Rotterdam is the Netherlands' chief port and the world's largest. There are also ports and harbors at Amsterdam, Delfzijl, Dordrecht, Eemshaven, Groningen, Haarlem, Ijmuiden, Maastricht, Terneuzen, and Utrecht.

In 2002, there were 5,046 km (3,136 mi) of navigable waterways of which 3,745 km (2,327 mi) are canals. There are 2,808 km (1,744 mi) of railroads, including 2,061 km (1,280 mi) electrified. Passenger transport on railways is subsidized as part of the national policy for promoting public transport. Public transport is provided for urban areas by municipal and regional transport companies, and minibus service in rural areas has ensured public transport for all towns with 1,000 residents or more. Also in 2001, there were 116,500 km (72,393 mi) of roadways, of which 104,850 km (65,153 mi) were paved, including 2,235 km (1,389 mi) of expressways. Motor vehicles in use in 2001 included 5,982,000 passenger cars and 831,175 commercial vehicles. The state subsidizes the construction of urban and rural cycle paths.

In 2001, there were 28 airports, 21 with paved runways. Principal airports include Schiphol at Amsterdam, Reina Beatrix at Aruba, and Hato at Curacao. The world's first airline from the standpoint of continuous corporate existence and operation is Royal Dutch Airlines (Koninklijke Luchtvaart Maatschappij-KLM), which began regularly scheduled operations in 1920. The Netherlands government owns a large part of the outstanding capital stock. KLM serves some 115 cities in 70 countries. Also in 2001, 20,474,000 passengers were carried on domestic and international flights.

## 12 HISTORY

When, in about 55 BC, Julius Caesar conquered a large part of the lowlands near the mouths of the Rhine and Meuse (Maas) rivers, this region was populated by Celtic and Germanic tribes. To the north of the Rhine delta, several Germanic tribes had settled, among which the Batavi and the Frisians were the most important. The Batavi served with the Roman legions until they rebelled in AD 70, but even after the revolt was quelled, Batavian soldiers fought for Rome. About 300 years later, successive waves of powerful Germanic tribes, such as the Salic or West Franks, invaded this region, called the Low Countries, and gradually pushed the Frisians back to the east coast of the North Sea, except in the extreme northern section of the mainland where Saxons had settled. By the time of Charlemagne (742–814), the Saxons and Frisians had been completely conquered by the West Franks, and the Frankish language had replaced the languages of the Germanic tribes.

Soon after the death of Charlemagne and the disintegration of his realm, several duchies and counties were founded in the Low Countries by local leaders. With the coming of the Middle Ages, Holland (now the North and South Holland provinces) became the most important region and extended its power and territory under Count Floris V (r.1256–96). The ancient bishopric of Utrecht was another important principality. As the Middle Ages drew to a close, individual cities such as Amsterdam, Haarlem, and Groningen rose to eminence, together with the Duchy of Gelderland. In the 15th century, the dukes of Burgundy acquired, by various means, most of the Low Countries. Upon the extinction of the male line of the Burgundian dynasty and the marriage of Mary of Burgundy and Archduke (later Emperor) Maximilian I in 1477, however, the Austrian house of Habsburg fell heir to the lands.

### The Habsburgs

Mary's son, Philip of Habsburg, married Joanna of Castile, heiress to the Spanish throne, and their son, Charles, became King Charles I of Spain in 1516 and Holy Roman Emperor Charles V in 1519. In 1547, he decreed the formal union of the Netherlands and Austria, and in 1549, the union of the Netherlands and Spain. By the end of his reign in 1555, he was master of the Low Countries. His son, Philip II, concentrated his efforts on the aggrandizement of Spain. To bring the Low Countries under his direct control, he tried to stamp out the rising

force of Protestantism and suppressed the political, economic, and religious liberties long cherished by the population. As a result, both Roman Catholics and Protestants rebelled against him under the leadership of William the Silent, prince of Orange, who by marriage had acquired large properties in the Netherlands.

For 10 years, the 17 provinces comprising the Low Countries united in a common revolt. Much of the area was freed in 1577, with William as the acknowledged ruler, but not even his moderation and statesmanship sufficed to keep the northern and southern provinces united. In 1578, the southern region (now Belgium) began to turn against William. In 1579, the northern provinces concluded the Union of Utrecht, in which the province of Holland was the most prominent. The Union, or United Provinces, carried on the fight against Spain, and William was the soul of the resistance until his death by assassination in 1584. William's son Maurice, governor (*stadtholder*) of the republic from 1584 to 1624, carried on a successful campaign against Spain, but final recognition of Dutch independence by the Spanish government was not obtained until the Treaty of Westphalia (1648). Meanwhile, the southern provinces remained loyal to Spain and to the Roman Catholic Church, and were thereafter known as the Spanish Netherlands.

In the 17th century, the United Provinces became the leading commercial and maritime power in the world; its prosperity was nourished by Dutch settlements and colonies in the East Indies, India, South Africa, the West Indies, South America, and elsewhere. The government was oligarchic but based on republican and federative principles. The Dutch were noted for their religious freedom. They welcomed religious refugees—Spanish and Portuguese Jews, French Huguenots, and English Pilgrims.

Arts, sciences, literature, and philosophy flourished alongside trade and banking. At the peak of Dutch power, the Netherlands led several coalitions of European powers to victory over the aggressive France of Louis XIV. William III (r.1672–1702), great-grandson of William the Silent and grandson of the English King Charles I, and his English wife, Mary, were invited by the English Parliament to occupy the British throne in 1688, but they continued to take keen interest in Dutch affairs. The Dutch republic of which William had been governor survived for nearly a century after his death. Its position was continually threatened, however, by intense rivalries among and within the provinces. Four naval wars with Britain from the middle of the 17th century to the end of the 18th also sapped Dutch strength. In 1795, a much-weakened republic was overrun by revolutionary French armies.

After the brief Napoleonic interlude, the great powers of Europe at the Congress of Vienna (1814–15) set up a new kingdom of the Netherlands, composed of the former United Provinces and the former Spanish or Austrian Netherlands, and installed a prince of the house of Orange as King William I. In 1830, a revolt by the southern provinces resulted in the establishment of the kingdom of Belgium. Thereafter, the much-reduced kingdom was mainly concerned with domestic problems, such as the school conflict over secular versus religious instruction, social problems stemming from the industrialization of the country, and electoral reforms.

In foreign affairs, relations with Belgium were gradually improved after a decade of war and tension following Belgian independence, and Dutch claims to the principality of Luxembourg ended with the death of William III in 1890.

### The World Wars to the present

Foreign policies based on neutrality successfully met their test in World War I, and neutrality was preserved until the German war machine overran the country during World War II. Queen Wilhelmina (r.1890–1948) refused to surrender to the Germans,



and instead fled to Britain with other officials of her government. Although Dutch resistance lasted only five days, destruction was widespread; nearly the whole of downtown Rotterdam was wiped out, and the cities of Arnhem and Nijmegen suffered great damage. In addition, Dutch factory equipment was carried away to Germany, bridges and railroads were blown up or removed, cattle were stolen, and part of the land was flooded. The Dutch withstood severe repressions until their liberation by Allied forces in May 1945. Wilhelmina abdicated in 1948 and was succeeded by her daughter, Juliana (r.1948–80).

The East Indies, most of which had been under Dutch rule for over 300 years, were occupied by Japanese forces in 1942. In 1945, a group of Indonesians proclaimed an independent republic and resisted Dutch reoccupation. After four years of hostilities and following UN intervention, the Netherlands recognized the independence of Indonesia in December 1949. Suriname (formerly Dutch Guiana), controlled by the Netherlands since 1815, became an independent nation on 25 November 1975. This Dutch colonial legacy was the root cause of several violent outbreaks during the late 1970s, as a group of South Moluccans, a few of the 40,000 Moluccans living in the Netherlands, used terrorism on Dutch soil to dramatize their demand for the independence of the South Molucca Islands from Indonesia. The Netherlands Antilles and Aruba continue to be dependent areas.

Reform of the social security system was the major political issue in the 1990s, along with efforts to reduce public spending. Years of administrative tinkering with the social security system has reduced the number of claimants, increased labor force participation, and generated a central government budget surplus of 1% of GDP in 2000. The budget surplus prompted heated cabinet discussions as the Labor Party wished to use the extra money for redistribution while the neo-liberal conservatives hoped to lower tax rates. Buyant growth rates of more than 3% in the period 1996–2001 brought down the official unemployment level to 2.7%. However, the global economic downturn that began in 2001 was one cause of the Netherlands' shrinking economy in late 2002 and early 2003. The government also passed a number of radical social measures that received parliamentary approval in recent years including conditions for administering euthanasia, legalization of prostitution, legalization of gay marriages, and laws banning discrimination.

The Netherlands joined the Economic and Monetary Union and strongly supports an independent European central bank, low inflation, and stable currency. It hosted two different intergovernmental conferences of the European Union and chaired the finalization of the Treaty of European Union (Maastricht Treaty) in 1991 and the Amsterdam Treaty in 1997.

In May 2002, Pim Fortuyn, an anti-immigration leader of his own political party, was assassinated by a single gunman. His party, List Pim Fortuyn, came in second in the 15 May 2002 parliamentary elections. The conservative Christian Democrats, led by Jan Peter Balkenende, came in first, and Balkenende became prime minister of a center-right coalition government. In October, Balkenende's government collapsed following disagreements within the List Pim Fortuyn Party. Elections were held on 22 January 2003, and the Christian Democrats narrowly defeated the Labor Party in the Second Chamber. After 125 days, a coalition government was formed comprising the Christian Democrats, the free-market liberal People's Party for Freedom and Democracy, and the socially liberal Democrats.

The Netherlands gave political support to the military action taken by the United States and United Kingdom against Saddam Hussein's regime in Iraq in 2003.

Queen Juliana abdicated in 1980 in favor of her daughter, Beatrix. In 1966, Beatrix had married Claus von Amsberg, a German diplomat, whose title remained that of Prince of the Netherlands when Beatrix became Queen. Their firstborn son,

Prince Willem-Alexander, is presumptive heir to the throne. Beatrix and Claus von Amsberg had two other sons, Johan Friso and Constantijn, before Prince Claus's death in 2002.

### 13 GOVERNMENT

The Netherlands is a constitutional monarchy, under the house of Orange-Nassau. Executive power is exercised by the crown and the cabinet, which must have the support of a majority in the parliament. Cabinet ministers may not be members of the parliament. The Council of State, instituted in 1532, is appointed by and presided over by the sovereign; it is composed of a vice president, councillors (28 maximum), and honorary members (25 maximum). The council considers all legislation proposed by the sovereign or the cabinet before it is submitted to the parliament. While functioning in an advisory capacity, the council has executive powers when it implements orders of the sovereign and it has judiciary powers when it acts in disputes concerning the government.

Legislative power is exercised jointly by the crown and the States-General (Staten-Generaal), a bicameral parliament. The upper house (Eerste Kamer) consists of 75 members elected for four years by the provincial representative councils on the basis of proportional representation. The lower house (Tweede Kamer) has 150 members elected for four years directly by the people, also on the basis of proportional representation. Only the lower house has the right to introduce bills and to move amendments, but the upper house can accept or reject bills passed by the other chamber.

All Dutch citizens who have reached the age of 18 years and reside within the Netherlands have the franchise. All citizens who have reached the age of 18 years are eligible for election to the States-General.

Every year on the third Tuesday in September, the session of the States-General is opened at the Hague by the monarch. In the speech from the throne, the government's program for the year is announced. The monarch acts as an adviser to the cabinet, may propose bills, and signs all bills approved by the legislature. Theoretically she could refuse to sign a bill, but this never occurs in practice because the cabinet is responsible for the actions of the ruler. Thus, if the queen should refuse to sign a bill, the cabinet must resign and she must then find a new cabinet acceptable to the parliament.

A formateur is appointed by the sovereign to advise on the program and composition of the new cabinet, which he often does not join when it takes office. If he fails to bring together a new ministry, a new formateur is appointed, and so on until a new cabinet has been formed.

### 14 POLITICAL PARTIES

Religion played an important role in the political life of the Netherlands. During World War II, strenuous efforts were made to reduce this role, but denominational parties continued to exercise considerable influence. However, since the mid-1960s the general trend has been toward the polarization of politics into conservative and progressive parties, and denominational parties have lost voter support.

The religious political party with the largest membership throughout the postwar period was the Catholic People's Party (Katholieke Volkspartij—KVP), which favored democratic government and a middle-of-the-road social policy. It began to lose votes in the 1960s and the KVP joined the Anti-Revolutionary Party (Anti-Revolutionaire Partij—ARP) and the right-wing Christian Historical Union (Christelijk-Historische Unie—CHU) to form the Christian Democratic Appeal (CDA) to contest the 1977 elections. When this alliance did not yield a real improvement in the electoral position of the confessional parties, they merged to form CDA, which governed the Netherlands in the 1980s under the leadership of Ruud Lubbers. The Labor

party (Partij van de Arbeid—PvdA) vied for political leadership with the KVP in the first decades of the postwar period, polling about the same number of votes in national elections until 1972, when the PvdA won a plurality of nearly 25% of the total vote and emerged as the dominant member of a centrist coalition government. The Labor Party, while calling itself socialist, has appealed mainly to national interests rather than to socialist ones, although it does favor redistribution and solidarity. Since 1986, it has pursued de-radicalization and has moved to the political center. The conservative People's Party for Freedom and Democracy (Volkspartij voor Vrijheid en Democratie—VVD) advocates free enterprise, separation of church and state, and individual liberties.

Since 1965, discontent with the major political parties and erosion of party discipline have led to the establishment of change-oriented parties like Democrats 66 (Democraten 66—D66), which pushes for greater democratic accountability, political transparency, and involvement of the citizen in the policy process. Smaller parties include the left-wing Green Left (Groen Links—GL), which is the product of a merger of socialist and ecology parties in 1991, and three small social conservative Calvinist parties: the Political Reformed Party (Staatkundig Gereformeerde Partij—SGP), the Reformed Political League (Gereformeerd Politiek Verbond—GPV), and the Reformatiorian Political Federation (Reformatiorische Politieke Federation—RPF). Combined, they usually garner around 5% of the vote and 8 seats in parliament. Finally, the Socialist party (Socialistische Partij—SP) is a radical left party.

As no single party commands a majority in the States-General, the governing cabinet is a coalition of various party representatives, according to their numerical strength. In 1994, for the first time in 80 years, a coalition emerged which did not include a confessional party. The Labor party won a plurality of votes in spite of an absolute loss of votes. Its closest ally, D66, absolutely refused to join a coalition government with the Christian Democrats. In 1994, the first “purple” cabinet emerged, led by Wim Kok of the Labor party, and composed of D66 and the VVD. In 1998 the government fell after D66 failed to push through parliament a bill to make more use of referendums. A month later, in June 1998, voters brought back the purple coalition and Kok led another government of VVD, D66, and PvdA.

Willem Kok initially let it be known in various interviews that he would stand again in the 2002 election, greatly increasing the likelihood of another four years of Labor Party leadership. However, in April 2002, Kok's government resigned following an official report criticizing its role in the 1995 Srebrenica massacre in the former Yugoslavia, when some 100 lightly armed Dutch peacekeepers failed to stop Bosnian Serb forces from murdering around 7,000 Muslims.

Elections were held on 15 May 2002, and resulted in a victory for the Christian Democrats. A surprise showing was made by the List Pim Fortuyn (LPF); a political party formed just a month earlier by the anti-immigrant politician Pim Fortuyn. Fortuyn was assassinated just prior to the election, but his party came in second. Labor, the VVD, and D66 all suffered losses. Christian Democratic leader Jan Peter Balkenende became prime minister; however, his government collapsed in October 2002, and new elections were held on 22 January 2003.

Following the January 2003 elections, the 150 seats in the Second Chamber of the Legislature were distributed as follows: CDA, 28.6% (44 seats); PvdA, 27.3% (42 seats); VVD, 17.9% (28 seats); SP, 6.3% (9 seats); LPF, 5.7% (8 seats); GL, 5.1% (8 seats); D66, 4.1% (6 seats); the Christian Union (CU), 2.1% (3 seats); and the conservative Calvinist party Political Reformed Party (SGP), 1.6% (2 seats). The PvdA scored an increase of 19 seats over the May 2002 elections, and the LPF suffered a loss of

18 seats. Balkenende formed a coalition government composed of the CDA, VVD, and D66.

## 15 LOCAL GOVERNMENT

As of 1994, the country was divided into 12 provinces, each governed by a representative provincial council (*Provinciale Staten*). Its members are elected by direct universal suffrage. The size of the council depends on the number of inhabitants in the province. Members are elected for four-year terms. From among their members, the councils elect provincial executives (*Gedeputeerde Staten*) with six to eight members. Each province has a commissioner appointed by and representing the crown.

The municipalities (496 in 2003) are administered by municipal councils, which are elected directly for four-year terms by the local inhabitants and make local bylaws. The executive powers of the municipality are entrusted to a corporate board consisting of a burgomaster and two to six aldermen; the latter are elected from and by the council, while the burgomaster is appointed by the crown. The important function of flood control and water management is exercised by autonomous public authorities, some of which date as far back as the 13th century.

## 16 JUDICIAL SYSTEM

The judiciary is independent and the judges irremovable except for malfeasance or incapacity. Roman law still is basic, but the judicial system is largely patterned on that of France. There is no jury system, and the state rather than the individual acts as initiator of legal proceedings. Administrative justice is separate from civil and criminal justice and not uniform in dispensation.

The supreme judiciary body is the Supreme Court of the Netherlands (Court of Cassation). It is staffed by 35 justices. Its principal task is to supervise administration of justice and to review the judgments of lower courts. There are five courts of appeal (*gerechtshoven*), which act as courts of first instance only in fiscal matters. They are divided into chambers of three justices each. The 19 district courts (*arrondissementsrechtbanken*) deal as courts of first instance with criminal cases and civil cases not handled by the 61 sub-district courts. Most of these courts are manned by single magistrates. In 2002, the sub-district courts were incorporated administratively into the district courts; a subdistrict court section is now formed at these courts. There also are juvenile courts and special arbitration courts (for such institutions as the Stock Exchange Association and professional organizations).

## 17 ARMED FORCES

In 2002 there were 49,580 active personnel in the armed forces, with reserves numbering 32,200. The army numbered 23,150 including 1,630 women. Equipment included 328 main battle tanks. The navy had 13,800 personnel including 3,100 marines. Its fleet included four submarines and 12 surface combatants. The naval aviation unit of 950 was equipped with ten combat aircraft and 21 armed helicopters. The air force of 8,850 personnel (including 975 women) operated 143 combat aircraft and 30 attack helicopters. The constabulary numbered 3,300. The US stationed about 550 troops in the Netherlands. The Netherlands maintained forces abroad in Germany, Iceland, and the Netherlands Antilles. The nation also participated in UN and peacekeeping missions in seven regions. Military expenditures were estimated at \$6.5 billion in 2000–01, or 1.5% of GDP.

## 18 INTERNATIONAL COOPERATION

The Netherlands is a founding member of the UN, having joined on 10 December 1945. It participates in ECE, ECLAC, ESCAP, and all the nonregional specialized agencies, and is a signatory to the Law of the Sea treaty and a member of the WTO. In addition, the Netherlands is a member of the Asian Development Bank,

Council of Europe, EU, NATO, and OECD, and is a permanent observer at OAS.

On 1 January 1948, Belgium, the Netherlands, and Luxembourg established a joint customs union, Benelux; since that time, the three countries have freed nearly all of their mutual imports from quantitative restrictions. On 3 February 1958, the Benelux Economic Union was established to make it possible for each participating country to apply itself more intensively to the production for which it is best suited as well as to extend the total market for the member countries.

## 19 ECONOMY

An industrial nation with limited natural resources, the Netherlands bases its economy on the importation of raw materials for processing into finished products for export. Food processing, metallurgy, chemicals, manufacturing, and oil refining are the principal industries. Agriculture is particularly important to the economy, as about 60% of total agricultural production is exported.

Because of its geographic position on the sea, outstanding harbor facilities, and numerous internal waterways, the Netherlands became a trading, transporting, and brokerage nation. A major role in the economy has always been played by the service industries, such as banks, trading companies, shipping enterprises, and brokerage and supply firms. The economy, being involved in international trade, is sharply affected by economic developments abroad—including fluctuations in prices of primary goods—over which the Netherlands has little or no control.

Growth in GDP averaged just under 3% per year during 1988–95 with exceptionally strong growth occurring in 1989 (4.8%) and particularly slow growth in 1993 (1.8%). Inflation was low, averaging about 2% a year between 1986 and 1998. The unemployment rate fell from 10.5% in 1985 to 8.4% in 1995, and has continued to fall steadily, reaching an estimated 3% in 2002. For the four years 1997 to 2000, real GDP growth averaged 4%, well ahead of most of Europe. Growth slowed in the global economic slowdown of 2001 to 2.8% and was brought close to a stand-still in 2002, with estimated growth of 0.3%. Inflation jumped from 2.2% in 1999 and 2.6% in 2000 to a yearly average of 4.5% in 2001 due mainly to a hike in the VAT rate, increases in gasoline and food prices. For 2002, inflation is estimated at 3.4% a solid 3.7%.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 the Netherlands' gross domestic product (GDP) was estimated at \$434 billion. The per capita GDP was estimated at \$26,900. The annual growth rate of GDP was estimated at 0.3%. The average inflation rate in 2002 was 3.4%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 3% of GDP, industry 26%, and services 71%.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$15,626. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. Approximately 17% of household consumption was spent on food, 7% on fuel, 2% on health care, and 13% on education. The richest 10% of the population accounted for approximately 25.1% of household consumption and the poorest 10% approximately 2.8%.

## 21 LABOR

As of 2000, the labor force numbered 7.2 million. An estimated 73% were employed in services, 23% in manufacturing and

construction, and 4% in agriculture. The unemployed represented about 3% of the workforce in 2002, compared with 1.2% in 1970, and 13% in 1985.

Most labor unions are organized on the basis of a specific religious, political, or economic orientation and belong to a similarly oriented central federation. The Federated Dutch Trade Union Movement (FNV) is the largest Dutch labor union. Strikes are permitted but rare. Total membership of all labor unions in 2002 was 28% of those employed. However, collective bargaining agreements cover almost three-quarters of the labor force. Anti-union discrimination is prohibited.

The Social and Economic Council, on which labor is represented, advises the government on the main guidelines of wage policy. The law stipulates a 40-hour workweek, but in 2002 the average worker worked 37.5 hours. The five-day workweek has been generally adopted. Workers receive workers' compensation, unemployment insurance, sick pay, payment for legal holidays, and paid vacations. The employment of women and adolescents for night work is forbidden. The minimum wage was \$1,050 per month in 2002 although most workers earn more. There is a reduced minimum wage for workers under 23; it works on a sliding scale ranging from 35% of the adult minimum wage for a 16 year old to 85% for those 22 years of age. The minimum age for employment is 16 years.

## 22 AGRICULTURE

More than 27% of the total land area of the Netherlands is under seasonal or permanent crop production. Grasslands account for about 54% of all agricultural lands. Most farms are effectively managed and worked intensively with mechanical equipment. The many cooperatives have added to the efficiency of production and distribution.

Although agricultural production has decreased in recent years, labor productivity in Dutch agricultural and horticultural industries has risen sharply. The number of holdings declined by over 17% from the mid-1970s to the mid-1980s; in 2000 there were 51,725 arable holdings. The agricultural labor force totaled 254,000 in 1999.

Much of the soil in the east and southeast is poor. Moreover, large regions are so moist because of their low altitude that only grass can be grown profitably, a condition that has led to the enormous development of the dairy industry. The best land is found in reclaimed polders. Principal crops and output in 2002 (in millions of kg) were sugar beets, 6,250; potatoes, 7,363; wheat, 1,057; barley, 315; rye, 17; and triticale, 24.

The Netherlands is famous for its bulbs grown for export, principally tulip, hyacinth, daffodil, narcissus, and crocus. Flower growing is centered at Aalsmeer (near Amsterdam), and nurseries are situated mainly at Boskoop. Bulb growing, done principally at Lisse and Hillegom, between Haarlem and Leiden, has been extended in recent years to areas of North Holland. In 2000, land area for growing bulbs totaled 22,543 hectares (55,700 acres).

Since the beginning of this century, the government has been helping the agrarian sector through extension services, the promotion of scientific research, and the creation of specific types of agricultural education. In the 1930s, an extensive system of governmental controls of agricultural production was introduced, and after World War II (1939–45), an even more active policy was initiated, which evolved into integrated planning covering practically every aspect of rural life. In recent years, the government has actively encouraged the consolidation of small landholdings into larger, more efficient units.

## 23 ANIMAL HUSBANDRY

World-renowned Dutch dairy products outrank all other agricultural produce, and livestock provides two-thirds of total agricultural value. In 2001 there were four million head of cattle, 13.1 million pigs, 1.3 million sheep, and 100 million chickens.

Milk production in 2001 totaled 11.3 million tons. Meat production in 2001 was 2.6 million tons (including pork, 1,458,000; beef and veal, 364,000; and poultry, 757,000). Butter production was 130,000 tons; cheese, 662,000 tons.

Friesland is the most important region for the production of milk and butter. Excellent grazing lands and a long growing season have greatly helped the Frisian dairy industry, whose main support is the famed Frisian strain of cows. The making of cheese is connected with such famous brands as those named for Edam and Gouda, towns in the province of South Holland, and Alkmaar in North Holland.

The Netherlands regularly imports calves from the United Kingdom. In 1995, the Dutch Ministry of Agriculture, in response to the possible connection of bovine spongiform encephalopathy (BSE) in cattle to Creutzfeldt-Jakob disease in humans, responded with a program to destroy all imported UK veal calves. The total slaughter amounted to 64,000 calves and led to losses of approximately \$32 million to the livestock industry.

## 24 FISHING

Although no longer as important as it was in the 16th and 17th centuries, fishing still contributes substantially to the food supply. Annual fish consumption in the Netherlands is 14.6 kg (32.2 lb) per person. In early 1996 there were 498 vessels in the Dutch fishing fleet, with a combined 153,694 GRT. About half of the fish catch is landed at the ports of Scheveningen and Ijmuiden. The Dutch fishing industry faces declining fish stocks and quota cuts from the EU that make profitability difficult because of excess capacity. In 2000, Dutch imports of fish products totaled \$1,161 million and exports exceeded \$1,344 million.

The total catch in 2000 was 495,804 tons, consisting primarily of mackerel, mussels, sardines, herring, plaice, and whiting. Shrimp, oysters, sole, and other saltwater fish were also caught.

## 25 FORESTRY

One of the least forested countries in Europe, the Netherlands produces only about 8% of its wood requirements. Woodland, chiefly pine, covers about 375,000 ha (927,000 acres), or only 11.1% of the total land area, of which state forest areas comprise some 37%; private owners, 31%; provincial and local governments, 14%; and nature conservation organizations, 18%. Productive woodlands total about 230,000 ha (580,000 acres); output of timber was approximately 1,039,000 cu m (36.7 million cu ft) in 2000. The Netherlands imports about 95% of its softwood lumber needs, mostly from Sweden, Finland, and Russia. Domestic sources of temperate hardwood lumber usually meet 40–50% of annual demand; production totaled 131,000 cu m (4.6 million cu ft) in 2001.

Afforestation has not kept pace with increasing consumption. The Dutch government would like to become at least 25% self-sufficient in wood fiber by 2025. In order to meet this goal, some 3.9 million cu m (137.7 million cu ft) of fiber would need to be produced annually (assuming current consumption trends). Currently, Dutch wood fiber production is only 1.2 million cu m (42 million cu ft). During 1990–2000, only 1,000 ha (2,500 acres) of forest were planted. The government established a goal in 1994 of increasing forested land by 3,000 ha (7,400 acres) annually until 2020.

## 26 MINING

The Netherlands was an important regional producer of natural gas and petroleum and played a major role as a transshipment center for mineral materials entering and leaving Europe—Rotterdam was the world's largest container port. The only other mineral of commercial importance was salt, and the only other mining operations left in the country were involved in the extraction of limestone, peat, and sand and gravel. The

production of salt from the mines at Hengelo and Delfzijl was one of the oldest industries in the country; 5.0 million tons was produced in 2001 (various types), down from 5.5 in 1998. Because of oversupply and falling prices, Akzo Nobel Salt BV, the leading producer, was cutting capacity for its packaged salt in favor of its bulk grades. Magnesium chloride and oxide were produced in a plant at Veendam from extracted salt brines. Also produced in 2001 were hydraulic cement, nitrogen, industrial sand, sodium compounds, and sulfur. No metals were mined, but 3 million tons of iron ore was sintered from imported ore in 2001, down from 4.3 million tons in 1997. Coal was mined in Limburg until 1974. Among the country's leading industries in 2002 were metal products, chemicals, petroleum, and construction, and chemicals and fuels were top export commodities.

## 27 ENERGY AND POWER

The Netherlands, which has no waterpower, depends on natural gas and petroleum as energy sources. It is the second-largest producer of natural gas in the North Sea region. The vast Slochteren reserve in Groningen Province, which began production in 1959 and is one of the world's largest producing natural gas fields, and lesser deposits in the North Sea have enabled the country to meet its energy demands largely from domestic supplies. The gas is produced from 30 offshore facilities in the North Sea and 20 onshore installations. Proved natural gas reserves totaled 1.8 trillion cu m (63.5 trillion cu ft) at the beginning of 2002; production in 2000 was 73.6 billion cu m (2.6 trillion cu ft).

The second principal energy source is oil, which provided about 45% of the Netherlands' primary energy needs in 2000. Increased domestic production of crude petroleum (89,000 barrels per day in 2000) from offshore deposits in the North Sea still left the nation dependent on imported petroleum. The Arab oil embargo and the tripling of oil prices in 1973–74 led the government to introduce energy-saving programs; energy consumption increased by an average of only about 0.5% annually between 1975 and 1985 and by an average of 1.1% yearly from 1986 to 1992. The Netherlands reexports two-thirds of all imported petroleum in the form of refined oil products. Production of the petroleum-refining industry increased from 173 million barrels in 1990 to 524 million barrels in 1994. Refining capacity was 1.2 million barrels per day at the beginning of 2002.

Production of electric power in 2000 totaled 88 billion kWh, of which thermal power plants using oil and coal as fuel supplied 90.3%, nuclear power plants 4.2%, and other sources 5.4%, and hydropower less than 1%. Nuclear generating capacity is provided chiefly by a 450 MW station in Borssele, Zeeland. As of 2002 the Netherlands was one of five European Union (EU) countries that had declared a moratorium on building new nuclear facilities. Consumption of electricity in 2000 was 100.7 billion kWh. Installed capacity in 2001 was 21.1 million kW.

## 28 INDUSTRY

Because of World War II and its consequences (the high rate of population increase and the severing of economic ties with Indonesia), drastic structural changes took place in the Dutch economy, and the further development of industry became important. Industry increased to such an extent that it produced 32% of GDP in 1990. Since then, however, industrial production has declined, accounting for only 26% of GDP in 2001. In 1995 there were 43,000 firms of all sizes engaged in mining, quarrying, manufacturing, and electricity, gas, and water supply. Another 22,400 firms were engaged in transport, storage, and communications. As of 2002, foreign companies in the country accounted for about 25% of industrial production and employment in industry.

Since World War II, the metallurgical industry in particular has made tremendous progress. The Philips Electrical Co. at Eindhoven has become the greatest electrical products firm in Europe as well as one of the world's major exporters of electric bulbs and appliances. In 1996, Philips employed 273,000 people and had revenues of \$41 billion. Unilever, the British-Dutch consumer products company, has grown to become one of the world's largest corporations, with 306,000 employees and 1996 sales of \$52 billion. More phenomenal has been the success of Royal Dutch/Shell Group, which began as a small concern in 1890 and was combined with the Shell Co. to form the world's number one income producer with 1996 revenues of \$128 billion and net income of \$8.9 billion. Royal Dutch/Shell owns and operates one of the world's largest oil refineries at Curaçao, near Venezuela, and Rotterdam's suburb of Pernis has the largest oil refinery in Europe. The Netherlands had six oil refineries in 2002, with a capacity of 1,206,000 barrels per day.

Among leading exports is pig iron, produced from imported ore at the Velzen-Ijmuiden plant, situated where the canal from Amsterdam reaches the North Sea. The chemical industry has grown increasingly important, but the once prosperous textile industry in Enschede has declined because of foreign competition and lack of modern management.

Industrial products include crude steel, pig iron, and pharmaceutical products. The Netherlands also produces cigarettes, beer, canned fish, cocoa and cocoa products, sugar, candies, biscuits, and potato flour. The Netherlands produced 239,325 automobiles in 2001, a 10% decrease over 2000. In 2000, it produced 50,602 heavy trucks, a 17% increase over 1999.

## 29 SCIENCE AND TECHNOLOGY

Advanced scientific research and development have provided the technological impetus for the Netherlands' economic recovery since World War II. Dutch universities have traditionally carried out fundamental scientific research, and the government has promoted research activities through the Netherlands Organization for Scientific Research, established in 1988, and the Netherlands Organization for Applied Scientific Research, established in 1930. It also has supported scientific organizations such as the Energy Development Corp. and Energy Research Foundation, Aerospace Development Agency, National Aerospace Laboratory, and Netherlands Maritime Institute.

The highly developed electrotechnical industry produces computers, telecommunications systems, electronic measurement and control equipment, electric switching gear and transformers, and medical and scientific instruments. Dutch firms designed and constructed the Netherlands' astronomical satellites and play a major role in the European Space Agency. The important aerospace industry is led by the world-famous firm of Fokker, which produced Europe's bestselling passenger jet aircraft, the F-27 Friendship, and has been active in the consortium that developed the European Airbus. In 1998, high-tech exports were valued at \$35.4 billion and accounted for 30% of manufactured exports.

Expenditures on scientific research and development in 1987-97 totaled 2% of GNP; 2,219 scientists and engineers and 1,358 technicians per million people were engaged in research and development.

Among the Netherlands' 39 scientific and technical learned societies, the most prominent is the Royal Netherlands Academy of Sciences, founded in 1808. The country also has 37 scientific and technical research institutes. In Leiden are located the National Museum of Natural History and the National Museum of History of Science and Medicine. The Netherlands has 16 universities offering courses in basic and applied sciences. In 1987-97, science and engineering students accounted for 39% of university enrollment.

## 30 DOMESTIC TRADE

A considerable but declining part of Dutch retail business is still conducted by small enterprises, which are usually owner operated. Some of the larger department stores in the cities have branches in small towns, and there are several nationwide supermarket chains. Cooperatives and associations are becoming increasingly important in both purchasing and producing.

Amsterdam is the chief center for commerce and trade, with Rotterdam and The Hague next. Most foreign firms have a single representative for the whole country. Many companies use the Netherlands as a distribution center for European markets. Terms of sale usually call for payment within 90 days. A value-added tax of 19% applies to most goods.

Business offices are generally open from 9 AM to 5 PM on weekdays and are closed Saturdays. Retail stores usually open between 8 and 9 AM and close between 6 and 7 PM on weekdays and Saturdays.

The country's most important trade fair is held at Utrecht, twice each year, in the spring and fall.

## 31 FOREIGN TRADE

The Dutch have traditionally been a powerful force in international trade. In recent years, the Netherlands has increased its trade in industrial products and decreased trade in food products and foodstuffs. Principal Dutch exports today are manufactured goods, machines, chemicals, petroleum products, natural gas, and foods. Chief imports are manufactured products, machines, crude petroleum, and chemicals. From 1981 through 2000, the Netherlands experienced trade surpluses each year.

The major export commodities of the Netherlands include machinery and equipment, fuels, chemicals, vegetables, and vegetable products. The top nine exports are as follows:

	% OF COUNTRY TOTAL
Automatic data processing equipment	8.4
Refined petroleum products	6.9
Electronic microcircuits	3.9
Telecommunications equipment	3.0
Crude vegetable materials	2.5
Natural and manufactured gas	2.5
Meat	2.4
Polymers	2.2
Vegetables	1.8

In 2000 the Netherlands's imports were distributed among the following categories:

Consumer goods	15.3%
Food	8.4%
Fuels	11.0%
Industrial supplies	23.4%
Machinery	31.5%
Transportation	10.2%
Other	0.2%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	43,166	26,506	16,660
Belgium	18,335	14,009	4,326
United Kingdom	18,079	15,914	2,165
France	17,807	9,151	8,656
Italy	10,258	3,965	6,293
United States	8,677	18,815	-10,138
Spain	5,432	3,572	1,860
Sweden	3,676	3,968	-292
Switzerland	3,110	2,201	909
Japan	1,839	7,906	-6,067

### 32 BALANCE OF PAYMENTS

Dutch merchandise and services exports have grown to represent more than 50% of GDP, making the Dutch economy one of the most internationally oriented in the world. Economic expansion of the Netherlands in the period immediately after World War II paralleled a generally favorable balance of payments. After occasional and minor deficits on current accounts during the mid-1960s, a major deficit occurred in 1970. Since then, the current-accounts balance has generally registered a surplus, despite increased costs of oil imports during the 1970s. The Netherlands' reliance upon exports that are resistant to recessions (such as some food and agricultural products, and semifinished products such as chemicals) has protected the Dutch economy from weaker demand from Germany and other EU countries during recessions. Dutch exports are likely to be susceptible to an increase in the demand for capital goods spurred by a recovery in world trade, however.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of the Netherlands's exports was \$221.9 billion while imports totaled \$201.1 billion resulting in a trade surplus of \$20.8 billion.

The International Monetary Fund (IMF) reports that in 2001 the Netherlands had exports of goods totaling \$202.9 billion and imports totaling \$183.1 billion. The services credit totaled \$52.9 billion and debit \$54.9 billion. The following table summarizes the Netherlands's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>3,743</b>
Balance on goods	19,865
Balance on services	-1,974
Balance on income	-7,522
Current transfers	-6,627
<b>Capital Account</b>	<b>-566</b>
<b>Financial Account</b>	<b>-11,180</b>
Direct investment abroad	-39,659
Direct investment in the Netherlands	51,239
Portfolio investment assets	-76,809
Portfolio investment liabilities	73,109
Other investment assets	-69,672
Other investment liabilities	56,379
<b>Net Errors and Omissions</b>	<b>7,653</b>
<b>Reserves and Related Items</b>	<b>350</b>

### 33 BANKING AND SECURITIES

The Netherlands Bank, nationalized in 1948, is the central bank. It issues the currency and supervises the privately owned banks. Since the 1950s, the Netherlands Bank had used reserve regulations and the central bank discount rate as instruments of monetary policy, but with the introduction of the European Central Bank, those responsibilities are now more centralized for all of the EU. The Dutch financial services industry has a long and distinguished history and has introduced many banking innovations to the world. Since the late 1980s, the sector has undergone a revolution. A common strategic desire to expand and to gain more financial strength, combined with deregulation of the financial market, prompted several bank mergers and the formation of financial conglomerates of banks and insurance groups. As a result, the number of dominant participants in the market has diminished to a handful, each providing the full range of financial services. The Netherlands Middenstands-bank (NMB) and the state-owned Postbank merged to form the NMB Postbank in 1989, which in turn merged again with the Nationale Nederlanden insurance group to form the Internationale Nederlanden Groep (ING) in 1991. The large ABN and Amro commercial banking groups joined up to form ABN-Amro in 1990. VSB-bank, a conglomerate of savings banks, teamed up with the Ameu insurance group and Belgium's AG insurance group in 1990 to form the Dutch-Belgian Fortis group.

Rabobank, a large cooperative group which specializes in the provision of agricultural credits and mortgage facilities but has been rapidly expanding its product portfolio in recent years, took a 50% share in the Robeco investment group in 1996. The robust nature of the Dutch banking industry came to fore once again in December 1999. Although it ultimately failed, ING made headlines through its attempted takeover of the French Cr dit Commercial de France (CCF). Had ING's bid succeeded, it would have been the first successful merger of a French bank with another European financial institution.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$145.3 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$409.3 billion.

The Netherlands has the oldest stock exchange in the world, the Amsterdam Stock Exchange (ASE); founded in the early 17th century, it is now one of the largest stock exchanges in operation. The issuance of new securities on the exchange is supervised by the Netherlands Bank, acting in cooperation with the commercial banks and stockbrokers.

The comparatively large share of foreign security listings and capital supply gives the ASE an international importance disproportionate to its size. Its strong international orientation is also reflected in the fact that its share of Europe's total market capitalization far outweighs the relative importance of the Dutch economy. The multinational nature of the major Dutch companies, which has led to their shares being quoted on a number of international stock markets, means that stock price levels on the ASE are heavily influenced by developments elsewhere. The three largest companies, Royal Dutch Shell, Unilever, and ING, account for around 50% of total stock market capitalization.

In order to enhance the international competitiveness of the ASE, many reform measures have been taken in the past few years, with varying degrees of success. These include the introduction of a new electronic trading system open to foreign-based brokers, a division of the market into a wholesale and a retail segment, and a revamp of the exchange's organizational structure. Moreover, in early 1996, under pressure from the government, the stock exchange introduced an arrangement that aims to reduce the influence of the wide range of anti-takeover devices quoted corporations are permitted, which has long been considered as one of the exchange's most important shortcomings. Under the new arrangement, a prospective buyer who has gained 70% of a company's shares can turn to the Amsterdam Court of Justice after a period of 12 months.

On 1 January 1997, the Amsterdam Exchanges (AEX) were formed by the merger of the Amsterdam Stock Exchange (ASE) and the city's European Options Exchange (EDE). From approximately 680 at the end of January, the AEX index of 25 leading shares rose to 700 on 11 February 1997 and sped on to almost 775 by mid-March before suffering a correction prompted by the release of disappointing financial results by a brewing company, Grolsch, and fears of interest rate increases in the U.S. In 1998 the world capitalization rankings placed the equity market eighth in the world, while the volume of options contracts at the options market ranked fourth. By early 2003, however, the AEX index had dropped to 303.21, down 39% from the previous year.

### 34 INSURANCE

There are two sectors of the insurance industry in the Netherlands: the companies operating under control laws set down by the EC and supervised by the government, and the companies (mutuals, reinsurance, marine and aviation) not under official supervision. Compulsory third-party motor insurance has

been in effect since 1935. In addition, insurance for workers, hunters, nuclear facilities, and pension, are compulsory.

### 35 PUBLIC FINANCE

The government has gradually cut the deficit from 10% of GDP in 1983 to 2.75% in 1996, slightly below the 3% Maastricht criteria for European Economic and Monetary Union (EMU) in 1999. The deficit is largely financed by government bonds. Financing is also covered by issuing Dutch Treasury Certificates, which replaced a standing credit facility for short-term deficit financing with the Netherlands Central Bank. Under the Maastricht Treaty, the Netherlands Central Bank was abolished in 1994.

Although the private sector is the cornerstone of the economy, the government plays a vital role in the Netherlands' economy. It decides microeconomic policy and tax laws, as well as working toward structural and regulatory reforms. Public spending, however, had dropped to 46% of GDP as of 2000 as privatization and deregulation continued.

The US Central Intelligence Agency (CIA) estimates that in 2001 the Netherlands' central government took in revenues of approximately \$134 billion and had expenditures of \$134 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	134,000
Tax revenue	93.2%	124,858
Non-tax revenue	6.6%	8,803
Capital revenue	0.2%	268
EXPENDITURES	100.0%	134,000
General public services	6.4%	8,593
Defense	3.9%	5,172
Public order and safety	2.9%	3,822
Education	10.0%	13,356
Health	14.8%	19,813
Social security	37.4%	50,092
Housing and community amenities	1.5%	2,012
Recreation, cultural, and religious affairs	0.3%	456
Economic affairs and services	6.1%	8,200
Other expenditures	7.7%	10,311
Interest payments	9.1%	12,173

### 36 TAXATION

Principal taxes raised by the central government are income and profits taxes levied on individuals and companies, a value-added tax (VAT) on goods and services, and a tax on enterprises of public bodies (except agricultural enterprises). There is a wealth tax of 0.7% also levied on nonexempt taxable capital of individuals. Provinces and municipalities are not authorized to impose income taxes, and may impose other taxes only to a limited extent. The most important tax levied by municipalities is a real estate tax paid partly by owners and partly by occupants. Residents are taxed on both their local and foreign incomes, but nonresidents pay taxes only on income earned in the Netherlands.

The tax on the net profits of corporations in 2002 was 29% for annual profits up to €22,689 and 35.4% on the increment of profits above that. Depreciation and other business deductions are permitted. Capital gains were taxed at the same rates, although some kinds capital gains were tax-exempt. Withholding taxes up to a maximum of 15% were applied to dividends, although there is no withholding if the dividends are being paid by a subsidiary to a non-resident parent company, owning more than 25% of the payer. Companies can qualify for tax exemptions and tax reductions under investment incentive

regimes. Branches of foreign companies are treated the same as Dutch companies in accordance with the fiscal regime under which they qualify.

Incomes are taxed on a graduated scale, with liberal deductions for dependents; taxes are withheld by the state on the incomes of wage earners. In the tax reforms of 2001 marginal income tax rates were set in a course of increases in the lower rates, and decreases in the higher ones. The progressive schedule consists of four brackets, not counting a tax-exempt base for each individual taxpayer. In 2003, the lowest personal income tax rate, including social security contributions, was 32.9%, up from 13.9% in 1999 (but only 15% for those over 65 years old). The next highest rate, 38.40%, for the next increment of income up to €28,850, also included social insurance contributions and a lower rate (20.5%) for those over 65. The two highest rates—42% on the increment of income between €28,850 and €49,464, and 52% (down from 60% in 1999) on the increment of income above €49,464—included no social security assessments and did not have corresponding reduced rates for seniors. Gift and inheritance taxes range from 5% to 68% depending on the family relationship of the donor or deceased.

The Netherlands' main indirect tax is its VAT introduced 1 January 1969 with a standard rate of 12% and a reduced rate of 4% on basics. Effective 1 January 2001, the standard rate was increased from 17.5% to 19% with a reduced rate of 6%, the latter applied to basic foodstuffs, books, newspapers and periodicals, public ground and sea transport, water supplies, sports centers, and pharmaceuticals. Exempted from VAT are exported goods, medical, cultural, and educational services, and credit and insurance transactions. Excise taxes in 2003 were imposed on beer, wine, alcohol, petroleum products, and tobacco products. An energy tax is imposed on the suppliers and consumers of fuels. There are also taxes on legal transactions and on motor vehicles.

### 37 CUSTOMS AND DUTIES

The Dutch government has a traditionally liberal policy on tariffs and its membership in the Benelux Economic Union, the European Union, and other international trade organizations has resulted in comparatively low import duties. Tariffs on imports from the dollar area have also been liberalized and about 90% of imports from the United States are unrestricted quantitatively. Raw materials are usually not subject to import duties.

Imports are subject to EU customs regulations and tariff rates, plus VAT and other charges levied at entry through customs.

### 38 FOREIGN INVESTMENT

The government has encouraged foreign corporations to set up branch plants in the Netherlands and to establish joint ventures with Dutch companies in order to benefit from the introduction of new production techniques and improved methods of management that outside firms often bring. The government does not discriminate between foreign and domestic companies; foreign entrepreneurs have the same business privileges and obligations as Dutch businessmen. As a result, foreign companies operate in virtually all industries, including high-technology electronics, chemicals, metals, electrical equipment, textiles, and food processing.

Annual foreign direct investment (FDI) inflows were \$11 billion in 1997, down from \$16.6 billion in 1996, but then soared to \$37.6 billion in 1998. The peak was reached in 2000 and 2001, when total inflows reached \$52 billion and \$50 billion, respectively. However, in 2002, FDI inflow fell to an estimated \$30 billion. In 2002, Germany replaced the United States as the main source of FDI inflow. By 2001, the total stock of FDI had reached about \$321 billion. The major holders were the United States (24%), the United Kingdom (16%), and Belgium (14%).

The leading destinations of inward FDI have been the mining, quarrying and petroleum sectors.

By 2001, outward FDI stock held by investors from the Netherlands totaled about \$370 billion. The leading destinations of outward FDI from the Netherlands have been the United States (27%), Belgium (11%), and the United Kingdom (8%). The leading sector of outward investment has been the financial sector.

### 39 ECONOMIC DEVELOPMENT

For nearly four decades after World War II Dutch governments aimed at increased industrialization. During the 1990s, however, industrial growth slowed, while the service sector continued to expand. In this regard, the Netherlands is making the transition to a more liberalized high technology economy quite successfully.

In an effort to encourage industrialization after the Second World War, the maintenance of internal monetary equilibrium was vitally important, and the government has largely succeeded in this task. Successive governments pursued a policy of easy credits and a "soft" currency, but after the Netherlands had fully recovered from the war by the mid-1950s, a harder currency and credit policy came into effect. In the social sphere, stable relationships were maintained by a deliberate governmental social policy seeking to bridge major differences between management and labor. The organized collaboration of workers and employers in the Labor Foundation has contributed in no small measure to the success of this policy, and as a result, strikes (other than an occasional wildcat strike) are rare.

Successive wage increases helped bring the overall wage level in the Netherlands up to that of other EC countries by 1968. The Dutch government's policy, meanwhile, was directed toward controlling inflation while seeking to maintain high employment. In 1966, the government raised indirect taxes to help finance rising expenditures, particularly in the fields of education, public transportation, and public health. Further attempts to cope with inflation and other economic problems involved increased government control over the economy. Wage and price controls were imposed in 1970-71, and the States-General approved a measure granting the government power to control wages, rents, dividends, health and insurance costs, and job layoffs during 1974.

During the mid-1980s, the nation experienced modest recovery from recession; the government's goal was to expand recovery and reduce high unemployment, while cutting down the size of the annual budget deficit. The government has generally sought to foster a climate favorable to private industrial investment through such measures as preparing industrial sites, subsidizing or permitting allowances for industrial construction and equipment, assisting in the creation of new markets, granting subsidies for establishing industries in distressed areas, and establishing schools for adult training. In 1978, the government began, by means of a selective investment levy, to discourage investment in the western region (Randstad), while encouraging industrial development in the southern province of Limburg and the northern provinces of Drenthe, Friesland, and Groningen.

The Netherlands' largest economic development projects have involved the reclamation of land from the sea by construction of dikes and dams and by the drainage of lakes to create polders for additional agricultural land. The Zuider Zee project closed off the sea and created the freshwater IJsselmeer by means of a 30 km (19 mi) barrier dam in 1932, and subsequently drained four polders enclosing about 165,000 ha (408,000 acres). After a storm washed away dikes on islands in Zeeland and South Holland in 1953, killing some 1,800 people, the Delta project was begun. This project, designed to close estuaries between the islands with massive dams, was officially inaugurated in 1986; the cost was \$2.4 billion. The Delta works include a storm-surge barrier with 62 steel gates, each weighing 500 tons, that are

usually left open to allow normal tidal flow in order to protect the natural environment. Another major engineering project was construction of a bridge and tunnel across the Western Schelde estuary in the south to connect Zeeland Flanders more directly with the rest of the country.

Beginning in the 1980s, Dutch governments began stressing fiscal discipline by reversing the growth of the welfare state and ending a policy of inflation-based wage indexing. The latter policy represented a spirit of consensus among labor and management. At a time when other labor unions fought losing battles with management, Dutch unions agreed to a compromise on this cherished issue in return for a business promise to emphasize job creation. By the late 1990s, these reforms had paid off as Dutch unemployment plummeted to below 5%. As of the early 2000s, the Netherlands had among the lowest unemployment rates in the industrialized world. The Netherlands' economy was adversely affected by the global economic downturn that began in 2001, however, as gross domestic product (GDP) growth fell to 0.2% in 2002, and was forecast to fall to -0.2% in 2003. The Netherlands has favorable tax structures for investors, which has made the country one of the top recipients of foreign direct investment in the European Union.

### 40 SOCIAL DEVELOPMENT

A widespread system of social insurance and assistance is in effect. All residents are provided with old-age and survivorship benefits. Disability pensions are available to all employees, self-employed workers, students, and those disabled since childhood. Unemployment, accidents, illness, and disability are covered by insurance, which is compulsory for most employees and voluntary for self-employed persons. Maternity grants and full insurance for the worker's family are also provided, as are family allowances for children. Women receive 16 weeks of maternity leave with full pay. Exceptional medical expenses are covered for all residents.

Legislation mandates equal pay for equal work and prohibits dismissal due to marriage, pregnancy, or motherhood. However, cultural factors and lack of day care discourages women from employment. Many women work in part-time positions and are underemployed, and on average women earn less than men. Domestic violence is a problem, especially among ethnic minorities. The government provides programs to reduce and prevent violence against women.

Human rights are fully respected in the Netherlands. There were incidents of discrimination against religious minorities and some immigrant groups.

### 41 HEALTH

The Netherlands has a social insurance system similar to Germany's. About two-thirds of workers are covered by the social insurance program; the remainder are covered by private insurance. Under the Health Insurance Act, everyone with earned income of less than 50,900 guilders per year pays a monthly contribution in return for which they receive medical, pharmaceutical, and dental treatment and hospitalization. People who earn more than this have to take out private medical insurance. The state also pays for preventive medicine including vaccinations for children, school dental services, medical research, and the training of health workers. Preventive care emphasizes education, a clean environment, and regular exams and screenings. As of 1999, there were an estimated 3.1 physicians and 11.3 hospital beds per 1,000 people.

The general health situation has been excellent over a long period, as is shown by an estimated general mortality rate of 8.7 per 1,000 as of 2002 and an infant mortality of only 5 per 1,000 live births in 2000, down markedly from the 12.7 rate in 1970. The maternal mortality rate was 7 per 100,000 live births. These



low rates are attributed to a rise in the standard of living; improvements in nutrition, hygiene, housing, and working conditions; and the expansion of public health measures. In 2000, average life expectancy was 78 years.

Most doctors and hospitals operate privately. A system of hospital budgeting, which was introduced in 1983, has helped contain costs. In 1990, a proposal to increase competition among insurers, eliminating the distinction between public and private insurers, was developed. A reference price system—to control pharmaceuticals especially—was introduced in 1991. As of 1999, total health care expenditure was estimated at 8.7% of GDP.

The Ministry of Public Health and Environment is entrusted with matters relating to health care, but health services are not centrally organized. There are numerous local and regional health centers and hospitals, many of which are maintained by religious groups.

In 2002, the estimated birth rate was 11.6 per 1,000 people; 75% of married women (ages 15 to 49) used contraception in 2000. In the same year the total fertility rate was 1.7 children for each woman living throughout childbearing years.

Major causes of death in 1992 were categorized as follows, per 100,000 inhabitants: communicable diseases and maternal/perinatal causes (40), noncommunicable diseases (416), and injuries (36). There were 339 deaths per 100,000 attributed to cardiovascular problems and 235 per 100,000 attributed to cancer. There were 302 reported cases of measles in 1994. In 1999 there were 10 cases of tuberculosis per 100,000 people.

Immunization rates for children up to one year old in 1997 were as follows: diphtheria, pertussis, and tetanus, 95%; polio, 97%; and measles, 96%.

As of 1999, the number of people living with HIV/AIDS was estimated at 15,000 and deaths from AIDS that year were estimated at 100. HIV prevalence was 0.2 per 100 adults.

## 42 HOUSING

During World War II, more than 25% of Holland's two million dwellings were damaged: 95,000 dwellings were completely destroyed, 55,000 were seriously damaged, and 520,000 were slightly damaged. The housing shortage remained acute until 1950, when an accelerated program of housing construction began, and in 1953 the government decided to increase the house-building program to a level of 65,000 dwellings a year. Since then, the production rate has far exceeded both the prewar rate and yearly forecasts. From 1945 to 1985, nearly four million dwellings were built. In 1985 alone, 98,131 dwellings were built, bringing the total housing stock to 5,384,100 units by the end of the year. Most of the new units were subsidized by the national government. Subsidies are granted to municipalities, building societies, and housing associations, which generally build low-income multiple dwellings. Government regulations, which are considerable, are laid down in the Housing Act of 1965 and the Rental Act of 1979.

In 2000, the number of dwellings was at about 6,588,000, with an average of 2.3 residents per dwelling. The number of residents per dwelling has nearly halved since WWII. Approximately 90,000 new dwellings were constructed in 1996, down from 94,000 in 1995, and 98,000 in 1985. Of these, 75% were one-family houses; 69% were owner-occupied and 31% were rented.

The government determines on an annual basis the scope of the construction program. On the basis of national estimates, each municipality is allocated a permissible volume of construction. Within this allocation, the municipalities must follow certain guidelines; central government approval is required for all construction projects exceeding a specific cost. All construction must conform to technical and aesthetic requirements, as established by the government.

## 43 EDUCATION

The present Dutch education system has its origins in the Batavian Republic which was constituted after the French Revolution. The role of education gained importance in the Civil and Constitutional Regulations of 1789, and the first legislation on education was passed in 1801. After 1848, the municipalities, supported by state funds, were responsible for managing the schools. Private schools were not originally supported by the government. However, after 1917, private and state schools received equal state funding. As of 1999, public expenditure on education was estimated at 4.9% of GDP.

Illiteracy is virtually nonexistent in the Netherlands. School attendance between the ages of 5 and 18 is compulsory. Apart from play groups and crèches (which do not come under the Ministry of Education), there are no schools for children below the age of four. Children may, however, attend primary school from the age of four. Secondary school is comprised of three types: (1) general secondary school, with two options, the four-year junior general secondary school (MAVO) and the five-year senior general secondary school (HAVO); (2) preuniversity—the athenaeum and the gymnasium—both lasting for six years, prepares the children for university education; and (3) vocational secondary school is of three kinds—junior (LBO), senior (MBO) and higher (HBO).

Special education is provided to children with physical, mental, or social disabilities at special primary and secondary schools. Whenever possible, these children are later transferred into mainstream schools for continued education.

Facilities have been opened in various municipalities for adult education. Open schools and open universities have also been introduced. Vocational and university education is provided at the eight universities and five institutes (Hogescholen), which are equivalent to universities. These are funded entirely by the government. There are also seven theological colleges.

In 1997, there were 7,287 primary schools with 84,900 staff and 1,230,987 students. At the secondary level in the same year, there were 69,000 teachers and 1,415,712 students. As of 1999, virtually 100% of primary-school-age children were enrolled in school, while 92% of those eligible attended secondary school. All institutions of higher learning had a combined enrollment of 468,970 students in 1997.

## 44 LIBRARIES AND MUSEUMS

The Netherlands has rich library collections and has broad use of those materials. In 1997 there were 579 main public libraries with a combined collection of 41.5 million books.

The largest public library is the Royal Library at The Hague, which has about 2.7 million volumes and 7,000 manuscripts. Outstanding libraries are found in the universities: Amsterdam, with over 2.6 million volumes; Leiden, 2.7 million volumes; Utrecht, two million volumes; Groningen, 2.7 million volumes; and Erasmus of Rotterdam, 800,000 volumes. The technical universities at Delft, Wageningen, and Tilburg also have excellent collections. Libraries of importance are found in some provincial capitals, such as Hertogenbosch, Leeuwarden, Middelburg, and Maastricht. Also noteworthy are the International Institute of Social History at Amsterdam, which houses important collections of historical letters and documents, such as the Marx-Engels Archives; and the Institute of the Netherlands Economic-Historical Archive, which has its library in Amsterdam and its collection of old trade archives at the Hague.

Among Amsterdam's many museums, particularly outstanding are the Rijksmuseum (1800), the Stedelijk Museum (1895) with special collections of modern art, the Van Gogh Museum (1979), the Museum of the Royal Tropical Institute (1910) and the Jewish Historical Museum (1932). Among Amsterdam's newest museums are the Huis Marseille (1999), which has historic and modern photography exhibits, the hands-on New Metropolis

Interactive Science and Technology Museum (1997), and the Tattso Museum (1996). The Boymans–Van Beuningen Museum in Rotterdam has older paintings as well as modern works and a fine collection of minor arts. The Hague's Mauritshuis and the Frans Hals Museum at Haarlem have world-renowned collections of old masters. Other collections of national interest are in the Central Museum in Utrecht, the National Museum of Natural History in Leiden, Teyler's Museum in Haarlem, and the Folklore Museum in Arnhem. In the past, the most important art museums were found mainly in the large population centers of western Holland, but there are now museums of interest in such provincial capitals as Groningen, Leeuwarden, Arnhem, and Maastricht. The government stimulates the spread of artistic culture by providing art objects on loan and by granting subsidies to a number of privately owned museums. There are dozens of museums dedicated to the work of individual Dutch artists.

#### 45 MEDIA

The post office, telegraph, and telephone systems are operated by the government. The state's monopoly on postal services is confined to delivery of letters and postcards; about half of other deliveries are handled by private firms. In 1977, postal codes were introduced for addresses as part of a postal modernization program. As of 1999 there were 9.1 million main line telephones and 4 million mobile cellular phones in use. Significant improvements in the phone systems began in 2001 through the introduction of the third generation of the Global System for Mobile Communications.

There are several radio networks. The Netherlands Broadcasting Foundation, a joint foundation, maintains and makes available all studios, technical equipment, record and music libraries, orchestras, and other facilities. Broadcasting to other countries is carried on by the Netherlands World Broadcasting Service, which is managed by a board of governors appointed by the minister of cultural affairs. As of 1998 there are 4 AM and 58 FM stations. There were also about 21 television stations. Shortwave programs are transmitted in Dutch, Afrikaans, Arabic, English, French, Indonesian, Portuguese, and Spanish. Annual license fees are charged to radio and television set owners. Commercial advertising was introduced in 1967–68 and limited to fixed times before and after news broadcasts. In 2000, there were about 980 radios and 538 televisions for every 1,000 people. The same year, there were about 394 personal computers for every 1,000 people. About 52 Internet service providers served 8.7 million customers in 2001.

The Dutch were among the first to issue regular daily newspapers. The oldest newspaper, the *Oprechte Haarlemsche Courant*, was founded in 1656 and is published today as the *Haarlemsche Courant*. The Dutch press is largely a subscription press, depending for two-thirds of its income on advertising. Editorial boards, however, are usually completely independent of the commercial management.

In 2002, the largest national and regional newspapers, with daily circulations, were:

	CITY	CIRCULATION
<i>De Telegraaf</i>	Amsterdam	805,000
<i>Algemeen Dagblad</i>	Rotterdam	401,200
<i>De Volkskrant</i>	Amsterdam	372,100
<i>Brabants Dagblad</i>	North Brabant	296,600
<i>NRC Handelsblad</i>	Rotterdam	272,300
<i>Drents Groningse Dagbladen</i>	Assen	209,000
<i>De Gelderlander</i>	Gelderland	190,000
<i>Het Binnenhof</i>	The Hague	172,550
<i>De Stem</i>	Breda	154,620
<i>Noordhollands Dagblad</i>	Alkmaar	154,300
<i>Het Vrije Volk</i>	Rotterdam	153,600
<i>Dagblad Tubantia</i>	Enschede	152,600
<i>Haagsche Courant</i>	The Hague	148,000
<i>Utrechts Nieuwsblad</i>	Utrecht	145,300
<i>Die Limburger</i>	Maastricht	144,746
<i>Nieuwsblad van het Noorden</i>	Groningen	135,000
<i>Trouw</i>	Amsterdam	121,600

Complete freedom of speech and press is guaranteed by the constitution, and the government is said to fully support free expression in practice.

As of 1996, there were more than three million personal computers; in 1998 there were 328 Internet hosts per 1,000 population.

#### 46 ORGANIZATIONS

The Netherlands possesses numerous and varied organizations. Learned societies include the Royal Netherlands Academy of Sciences, the Royal Antiquarian Society, the Netherlands Anthropological Society, the Historical Association, the Royal Netherlands Geographical Society, and similar bodies in the fields of botany, zoology, philology, mathematics, chemistry, and other sciences. The Royal Netherlands Association for the Advancement of Medicine, the General Netherlands Society for Social Medicine and Public Health, and the Netherlands Association for Psychiatry and Neurology are some of the organizations active in the field of medicine. The International Statistical Institute is based in the Netherlands.

In the arts, there are such groupings as the Society for the Preservation of Cultural and Natural Beauty in the Netherlands, the Society of Netherlands Literature, the St. Luke Association, the Society for the Advancement of Music, the Royal Netherlands Association of Musicians, and national societies of painters, sculptors, and architects. The Netherlands Center of the International Association of Playwrights, Editors, Essayists and Novelists (PEN), the Netherlands Branch of the International Law Association, and the Netherlands Foundation for International Cooperation are among the organizations active internationally in their fields.

Associations established on the basis of economic interests include the Federation of Netherlands Industries, the Netherlands Society for the Promotion of Industry and Commerce, the Federation of Christian Employers in the Netherlands, the National Bankers Association, and chambers of commerce in Amsterdam, Rotterdam, The Hague, and other cities.

National youth organizations include the Evangelical Students of the Netherlands, Dutch United Nations Student Association, Youth Organization for Freedom and Democracy, The Netherlands Scouting Association, and YMCA/YWCA. There are a numerous sports associations for all ages. Women's organizations include Netherlands Association for Women's Interests, Women's Work and Equal Citizenship and the Netherlands Council of Women.

International organizations with national chapters include Amnesty International, Defence for Children International, Greenpeace International, and the Red Cross.

#### 47 TOURISM, TRAVEL, AND RECREATION

Travel in the Netherlands by public railway, bus, and inland-waterway boat service is frequent and efficient. Principal tourist attractions include the great cities of Amsterdam, Rotterdam, and the Hague, with their famous monuments and museums, particularly the Rijksmuseum in Amsterdam; the flower gardens and bulb fields of the countryside; and North Sea beach resorts. Modern hotels and large conference halls in the large cities are the sites of numerous international congresses, trade shows, and other exhibitions.

Recreational opportunities include theaters, music halls, opera houses, cinemas, zoos, and amusement parks. Popular sports include soccer, swimming, cycling, sailing, and hockey. Foreign visitors rarely need a visa for a stay of 30 days or less; valid passports usually suffice.

In 2000, the number of foreign tourists arriving in the Netherlands totaled 7,736,000. Income from tourism reached \$7.2 billion that year. There were 173,000 hotel beds with an occupancy rate of 49%.

In 2002, the US Department of State estimated the cost of staying in the Netherlands at between \$159 and \$270 per day.

#### 48 FAMOUS NETHERLANDERS

*The Imitation of Christ*, usually attributed to the German Thomas à Kempis, is sometimes credited to the Dutch Gerhard Groot (1340–84); written in Latin, it has gone through more than 6,000 editions in about 100 languages. Outstanding Dutch humanists were Wessel Gansfort (1420?–89), precursor of the Reformation; Rodolphus Agricola (Roelof Huysman, 1443–85); and the greatest of Renaissance humanists, Desiderius Erasmus (Gerhard Gerhards, 1466?–1536). Baruch (Benedict de) Spinoza (1632–77), the influential pantheistic philosopher, was born in Amsterdam.

The composers Jacob Obrecht (1453–1505) and Jan Pieterszoon Sweelinck (1562–1621) were renowned throughout Europe; later composers of more local importance were Julius Röntgen (1855–1932), Alfons Diepenbrock (1862–1921), and Cornelis Dopfer (1870–1939). Bernard van Dieren (1887–1936), a composer of highly complex music of distinct individuality, settled in London. Henk Badings (b. Bandung, Java, 1907–87) is a prolific composer of international repute. Outstanding conductors of the Amsterdam Concertgebouw Orchestra include Willem Mengelberg (1871–1951), Eduard van Beinum (1901–59), and Bernard Haitink (b.1929), who also was principal conductor of the London Philharmonic from 1967 to 1979.

Hieronymus Bosch van Aken (1450?–1516) was a famous painter. Dutch painting reached its greatest heights in the 17th century, when Rembrandt van Rijn (1606–69) and Jan Vermeer (1632–75) painted their masterpieces. Other great painters of the period were Frans Hals (1580–1666), Jan Steen (1626–69), Jacob van Ruysdael (1628–82), and Meindert Hobbema (1638–1709). Two more recent painters, Vincent van Gogh (1853–90) and Piet Mondrian (1872–1944), represent two widely divergent artistic styles and attitudes. Maurits C. Escher (1898–1972) was a skilled and imaginative graphic artist.

Hugo Grotius (Huig de Groot, 1583–1645), often regarded as the founder of international law, is famous for his great book *On the Law of War and Peace*. The outstanding figure in Dutch literature was Joost van den Vondel (1587–1679), poet and playwright. Another noted poet and playwright was Constantijn Huygens (1596–1687), father of the scientist Christian. Popular for several centuries were the poems of Jacob Cats (1577–1660). Distinguished historians include Johan Huizinga (1872–1945) and Pieter Geyl (1887–1966). Anne Frank (b. Germany, 1929–45) became the most famous victim of the Holocaust with the publication of the diary and other material that she had written while hiding from the Nazis in Amsterdam.

Jan Pieterszoon Coen (1587–1630), greatest of Dutch empire builders, founded the city of Batavia in the Malay Archipelago (now Jakarta, the capital of Indonesia). Two Dutch naval heroes, Maarten Harpertzoon Tromp (1597–1653) and Michel Adriaanszoon de Ruyter (1607–76), led the Dutch nation in triumphs in sea wars with France, England, and Sweden. Peter Minuit (Minnewit, 1580–1638) founded the colonies of New Amsterdam (now New York City) and New Sweden (now Delaware). Peter Stuyvesant (1592–1672) took over New Sweden from the Swedish and lost New Netherland (now New York State) to the British.

Leading scientists include the mathematician Simon Stevinus (1548–1620); Christian Huygens (1629–95), mathematician, physicist, and astronomer; Anton van Leeuwenhoek (1632–1723), developer of the microscope; Jan Swammerdam (1637–80), authority on insects; and Hermann Boerhaave (1668–1738), physician, botanist, and chemist. Among more recent scientists are a group of Nobel Prize winners: Johannes Diderik van der Waals (1837–1923), authority on gases and fluids, who received the award in 1910; Jacobus Hendricus van 't Hoff (1852–1911),

chemistry, 1901; Hendrik Antoon Lorentz (1853–1928) and Pieter Zeeman (1865–1943), who shared the 1902 award for physics; Heike Kamerlingh Onnes (1853–1926), physics, 1913; Christiaan Eijkman (1858–1930), physiology, 1929; Petrus Josephus Wilhelmus Debye (1884–1966), chemistry, 1936; Frits Zernike (1888–1966), physics, 1953; Jan Tinbergen (b.1903), economic science, 1969; Dutch-born Tjalling Koopmans (1910–85), who shared the 1975 prize for economic science; and Simon van der Meer (b.1925), cowinner of the physics prize in 1984. The 1911 Nobel Prize for peace was awarded to Tobias Michael Carel Asser (1838–1913).

The head of state since 1980 has been Queen Beatrix (b.1938).

#### 49 DEPENDENCIES

Aruba and the Netherlands Antilles are part of the Kingdom of the Netherlands; descriptions of them are given in the volume on the *Americas* under Netherlands American Dependencies.

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# NORWAY

Kingdom of Norway

*Kongeriket Norge*

**CAPITAL:** Oslo

**FLAG:** The national flag has a red field on which appears a blue cross outlined in white.

**ANTHEM:** *Ja, vi elsker dette landet* (Yes, We Love This Country).

**MONETARY UNIT:** The krone (Kr) of 100 øre is the national currency. There are coins of 50 øre and 1, 5, and 10 kroner, and notes of 20, 50, 100, 200, 500, and 1,000 kroner. Kr1 = \$0.1410 (or \$1 = Kr7.09) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Labor Day, 1 May; National Independence Day, 17 May; Christmas, 25 December; Boxing Day, 26 December. Movable religious holidays include Holy Thursday, Good Friday, Easter Monday, Ascension, and Whitmonday.

**TIME:** 1 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Norway occupies the western part of the Scandinavian peninsula in northern Europe, with almost one-third of the country situated N of the Arctic Circle. It has an area of 324,220 sq km (125,182 sq mi). Comparatively, the area occupied by Norway is slightly larger than the state of New Mexico. Extending 1,752 km (1,089 mi) NNE-SSW, Norway has the greatest length of any European country; its width is 430 km (267 mi) ESE-WNW. Bounded on the N by the Arctic Ocean, on the NE by Finland and Russia, on the E by Sweden, on the S by the Skagerrak, on the SW by the North Sea, and on the W by the Norwegian Sea of the Atlantic Ocean, Norway has a land boundary length of 2,544 km (1,581 mi) and a total coastline estimated at 21,925 km (13,624 mi).

Norway's capital city, Oslo, is in the southern part of the country.

## <sup>2</sup>TOPOGRAPHY

Norway is formed of some of the oldest rocks in the world. It is dominated by mountain masses, with only one-fifth of its total area less than 150 m (500 ft) above sea level. The average altitude is 500 m (1,640 ft). The Glittertinden (2,472 m/8,110 ft, including a glacier at the summit) and Galdhøpiggen (2,469 m/8,100 ft), both in the Jotunheimen, are the highest points in Europe north of the Alpine-Carpathian mountain range. The principal river, the Glåma, 611 km (380 mi) long, flows through the timbered southeast. Much of Norway has been scraped by ice, and there are 1,700 glaciers totaling some 3,400 sq km (1,310 sq mi). In the Lista and Jaeren regions in the far south, extensive glacial deposits form agricultural lowlands. Excellent harbors are provided by the almost numberless *fjords*, deeply indented bays of scenic beauty that are never closed by ice and penetrate the mainland as far as 182 km (113 mi). Along many coastal stretches is a chain of islands known as the *skjærgård*.

## <sup>3</sup>CLIMATE

Because of the North Atlantic Drift, Norway has a mild climate for a country so far north. With the great latitudinal range, the

north is considerably cooler than the south, while the interior is cooler than the west coast, influenced by prevailing westerly winds and the Gulf Stream. Oslo's average yearly temperature ranges from a about 5°C (41°F) in January to 28°C (82°F) in July. The annual range of coastal temperatures is much less than that of the continental interior. The eastern valleys have less than 30 cm (12 in) of rain yearly, whereas at Haukeland in Masfjord the average rainfall is 330 cm (130 in).

Norway is the land of the midnight sun in the North Cape area, with 24-hr daylight from the middle of May to the end of July, during which the sun does not set. Conversely, there are long winter nights from the end of November to the end of January, during which the sun does not rise above the horizon and the northern lights, or aurora borealis, can be seen.

## <sup>4</sup>FLORA AND FAUNA

The richest vegetation is found in the southeast around Oslofjord, which is dominated by conifers (spruce, fir, and pine); at lower levels, deciduous trees such as oak, ash, elm, and maple are common. Conifers are seldom found at altitudes above 1,000 m (3,300 ft). Above the conifer zone extends a zone of birch trees; above that, a zone of dwarf willow and dwarf birch, and a zone of lichens and arctic plants. In areas exposed to salt sea winds, there is little tree growth. Of the larger wild animals, elk, roe deer, red deer, and badger survive, as do fox, lynx, and otter. Bird life is abundant and includes game birds such as capercaillie (cock of the woods) and black grouse. In the rivers are found trout, salmon, and char.

## <sup>5</sup>ENVIRONMENT

Norway's plentiful forests, lakes, flora, and wildlife have suffered encroachment in recent years from the growing population and consequent development of urban areas, roads, and hydroelectric power. The forest floor and waterways have been polluted by Norway's own industry and by airborne industrial pollution from central Europe and the British Isles in the form of acid rain. The acid rain problem has affected the nation's water supply over an area of nearly 7,000 sq mi. Annual particulate emissions have

averaged 22 tons and hydrocarbon emissions have been about 270 tons. In 1992, Norway was among the 50 nations with the world's heaviest emissions of carbon dioxide from industrial sources, which totaled 60.2 million metric tons, a per capita level of 14.03 metric tons. In 1996, the total rose to 67 million metric tons. Transportation vehicle emissions are also a significant source of air pollution. By the early 1980s, the government had enacted stringent regulations to prevent oil spills from wells and tankers operating on the Norwegian continental shelf. Coastal protection devices have since been installed, and new technologies to prevent oil damage have been developed. Industry, mining, and agriculture have polluted 16% of Norway's lake water. The nation has a total of 382 cu km of renewable water resource; 68% are used for industrial activity and 3% are used for farming. The nation's cities produce on average 2.2 million tons of solid waste per year. Pollution control laws operate on the premise that the polluter must accept legal and economic responsibility for any damage caused and for preventing any recurrence; the state makes loans and grants for the purchase of pollution control equipment. Municipal authorities supervise waste disposal.

Since its creation in 1972, the Ministry of the Environment has been Norway's principal environmental agency. Between 1962 and 1985, 15 national parks, with a total area of more than 5,000 sq km (2,000 sq mi), and more than 150 nature reserves were established. As of 2001, 6.5% of Norway's total land area was protected. Four of Norway's mammal species and three of its bird species were endangered. Four plant species were also threatened. Threatened species include the Baltic sturgeon, marsh snail, and freshwater pearl mussel.

## **6**POPULATION

The population of Norway in 2003 was estimated by the United Nations at 4,533,000, which placed it as number 114 in population among the 193 nations of the world. In that year approximately 15% of the population was over 65 years of age, with another 20% of the population under 15 years of age. There were 98 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.43%, with the projected population for the year 2015 at 4,719,000. The population density in 2002 was 14 per sq km (36 per sq mi). Most inhabitants are concentrated in the southern areas of the country.

It was estimated by the Population Reference Bureau that 76% of the population lived in urban areas in 2001. The capital city, Oslo, had a population of 959,000 in that year. The only other towns with populations exceeding 100,000 were Bergen (215,967) and Trondheim (139,660). Most provincial cities are small, with only Stavanger (99,764), Kristiansand (66,398), and Drammen (52,062) having more than 50,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.9%.

## **7**MIGRATION

From 1866 on, North America received great waves of immigration from Norway, including an estimated 880,000 Norwegian immigrants to the US by 1910. The US and Canada still provide residence for many of the estimated 400,000 Norwegians living abroad. Emigration in recent years has not been significant. Norwegians moving abroad numbered 23,784 in 1990; immigrants totaled 25,494. Most emigrants went to Sweden (7,631), Denmark (2,756), the US (2,203), and the United Kingdom (1,980). Immigration was principally from the United States (1,908), the United Kingdom (1,250), Denmark (2,356), and Sweden (5,053). There were about 143,304 foreigners residing in Norway at the end of 1990.

Norway is an important resettlement country; as of 2001, it had an allocation of 1,300 places in cooperation with UNHCR.

In 2002 17,480 asylum applications were submitted, a considerable increase over the 14,782 submitted in 2001. Main countries of origin included the Russian Federation, Croatia, and Iraq. Recognition of refugee status is very low. The net migration rate for 2000 was 9,700, a 49% decline over 1999.

## **8**ETHNIC GROUPS

The Norwegians have for centuries been a highly homogeneous people of Germanic (Nordic, Alpine, and Baltic) stock, generally tall and fair-skinned, with blue eyes. Small minority communities include some 20,000 Lapps (Sami) and 7,000 descendants of Finnish immigrants.

## **9**LANGUAGES

Norwegian, closely related to Danish and Swedish, is part of the Germanic language group. In addition to the letters of the English alphabet, it has the letters æ, å, and ø. Historically, Old Norse was displaced by a modified form of Danish for writing, but in the 19th century there arose a reaction against Danish usages. Many dialects are spoken. There are two language forms, Bokmål and Nynorsk; the former (spoken by a large majority of Norwegians) is based on the written, town language, the latter on country dialects. Both forms of Norwegian have absorbed many modern international words, particularly from British and American English, despite attempts to provide indigenous substitutes. While Norwegian is the official language, English is spoken widely in Norway, especially in the urban areas. The Lapps in northern Norway have retained their own language, which is of Finno-Ugric origin. There is also a small Finnish-speaking minority.

## **10**RELIGIONS

The state church is the Evangelical Lutheran Church of Norway but all religious faiths have freedom to function. The king nominates the bishops and the Lutheran church receives an endowment from the state. Citizens are generally considered to be members of the state church unless they specifically indicate other affiliations. As such, reports indicate that about 86% of the population are nominally affiliated with the Evangelical Lutheran Church.

Of the major registered religious communities outside of the Evangelical Lutheran Church of Norway, there are about 62,051 Muslims; 43,019 members of Pentecostal congregations; about 42,546 Roman Catholics; 21,303 members of the Evangelical Lutheran Free Church of Norway; 14,812 Jehovah's Witnesses; 12,918 Methodists; 10,385 Norwegian Baptist Union members; 8,445 followers of the Church of Norway Mission Covenants; and 8,020 members of the Buddhist Federation. Other groups include Orthodox Jews, the Greek Orthodox Church, the Anglican Church, and Hindus. The Norwegian Humanist Association, an organization for atheists and the nonreligious, claims about 70,363 adults as registered members and between 10,000 and 12,000 children as associate members.

## **11**TRANSPORTATION

In spite of Norway's difficult terrain, the road system has been well engineered, with tunnels and zigzags, particularly in the fjordlands of the west; but there are problems of maintenance because of heavy rain in the west and freezing in the east. Road transport accounts for nearly 90% of inland passenger transport. As of 2002, the total length of highway was 91,180 km (56,659 mi), of which 67,838 km (42,154 mi) were paved, including 109 km (68 mi) of expressways. As of 2000, there were 1,851,929 passenger cars and 445,726 commercial vehicles. The state railway operates bus routes and has been steadily increasing its activities in this field, which is heavily subsidized by the government. In 2002, 4,006 km (2,489 mi) of rail line was



LOCATION: 57°57' 31" to 71°11' 8" N; 4°30' 13" to 31°10' 4" E. BOUNDARY LENGTHS: Finland, 729 kilometers (455 miles); Russia, 167 kilometers (104 miles); Sweden, 1,619 kilometers (1,011 miles); total coastline, 21,925 kilometers (13,703 miles). TERRITORIAL SEA LIMIT: 4 miles.

operational, of which 2,471 km (1,535 mi) were electrified; most of the track is standard gauge.

With a merchant fleet of 746 vessels (20,691,266 GRT) as of 2002, Norway possessed one of the world's largest fleets. The sale of Norwegian ships and their registration abroad, which

increased considerably during the mid-1980s, severely reduced the size of the fleet. In 1988, the Norwegian International Ship Register program began, whereby ships could be registered offshore, thus allowing foreign vessels to operate under the Norwegian flag while reducing costs to shipowners. Oslo and

Bergen have excellent harbor facilities, but several other ports are almost as fully equipped.

Norway had 102 airports in 2001, 66 with paved runways. Flesland at Bergen, Sola at Stavanger, and Fornebu and Gardermoen at Oslo are the main centers of air traffic. External services are operated by the Scandinavian Airlines System (SAS), which is 21% Norwegian-owned. Braathens Air Transport operates most of the domestic scheduled flights. Important internal air services include that linking Kirkenes, Tromsø, and Bodø; 2,000 km (1,240 mi) long, this air route is reputed to be the most difficult to operate in western Europe. In 2001, 14,558,800 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

Humans have lived in Norway for about 10,000 years, but only since the early centuries of the Christian era have the names of tribes and individuals been recorded. This was the period when small kingdoms were forming; the name Norge ("Northern Way") was in use for the coastal district from Vestfold to Hålogaland before AD 900. The Viking period (800–1050) was one of vigorous expansion, aided by consolidation of a kingdom under Olav Haraldsson.

From the death of Olav in 1030, the nation was officially Christian. During the next two centuries—a period marked by dynastic conflicts and civil wars—a landed aristocracy emerged, displacing peasant freeholders. A common legal code was adopted in 1274–76, and the right of succession to the crown was fixed. Shortly before, Iceland (1261) and Greenland (1261–64) came under Norwegian rule, but the Hebrides (Western Isles), also Norwegian possessions, were lost in 1266. Before 1300, Hanseatic merchants of the Baltic towns secured control of the essential grain imports, weakening the Norwegian economy.

Norway lost its independence at the death of Haakon V in 1319, when Magnus VII became ruler of both Norway and Sweden. The Black Death ravaged the country in the middle of the 14th century. In 1397, the three Scandinavian countries were united under Queen Margrethe of Denmark. Sweden left the union in 1523, but for nearly 300 more years Norway was ruled by Danish governors. Although the loss to Sweden of the provinces of Bohuslän (1645), Härjedalen (1658), and Jämtland (1645) was a handicap, gradual exploitation of the forest wealth improved Norwegian status. Denmark's alliance with France during the Napoleonic Wars resulted in the dissolution of the union. With the Peace of Kiel (1814), Norway was ceded to Sweden, but the Faroe Islands, Iceland, and Greenland were retained by Denmark. However, Norwegians resisted Swedish domination, adopted a new constitution on 17 May 1814, and elected the Danish Prince Christian Frederick as king of Norway. Sweden then invaded Norway, but agreed to let Norway keep its constitution in return for accepting union with Sweden under the rule of the Swedish king. During the second half of the 19th century, the *Storting* (parliament) became more powerful; an upsurge of nationalist agitation, both within the *Storting* and among Norway's cultural leaders, paved the way for the referendum that in 1905 gave independence to Norway. Feelings ran high on both sides, but once the results were announced, Norway and Sweden settled down to friendly relations. The Danish Prince Carl was elected king of Norway, assuming the name Haakon VII.

Although Norway remained neutral during World War I, its merchant marine suffered losses. Norway proclaimed its neutrality during the early days of World War II, but Norwegian waters were strategically too important for Norway to remain outside the war. Germany invaded on 9 April 1940; the national resistance was led by King Haakon, who in June escaped together with the government, representing the legally elected *Storting*, to

England, where he established Norway's government-in-exile. Governmental affairs in Oslo fell to Vidkun Quisling, a Fascist leader and former Norwegian defense minister who had aided the German invasion and whose name subsequently became a synonym for collaborator; after the German surrender, he was arrested, convicted of treason, and shot. During the late 1940s, Norway abandoned its former neutrality, accepted Marshall Plan aid from the United States, and joined NATO. King Haakon died in 1957 and was succeeded by Olav V. King Harold V succeeded his father who died 17 January 1991.

The direction of economic policy has been the major issue in Norwegian postwar history, especially as related to taxation and the degree of government intervention in private industry. Economic planning was introduced, and several state-owned enterprises have been established. Prior to the mid-1970s, Labor Party-dominated governments enjoyed a broad public consensus for their foreign and military policies. A crucial development occurred in November 1972, when the Norwegian electorate voted in a referendum to reject Norway's entry into the EC despite a strong pro-EC posture adopted by the minority Labor government. After the 1973 general elections, the Labor Party's hold on government policies began to erode, and in the 1981 elections, the party lost control of the government to the Conservatives. Although the non-Socialists retained a small majority in the 1985 elections, disagreements among them permitted Labor to return to office in 1986.

Norway reconfirmed its rejection of the European Union on 28 November 1994, when the vote was cast 52% against, 47.8% for joining Europe. However, in December 2002, Prime Minister Kjell Magne Bondevik stated a new referendum would probably be held on EU membership. Public opinion polls in June 2003 registered 51.9% of the electorate in favor of joining the EU; 38.2% were opposed and 9.9% were undecided.

Norway was forthright in its support for the US-led war on terror following the 11 September 2001 attacks on the World Trade Center in New York and the Pentagon in Washington, D.C. It supported the NATO decision to invoke Article 5 of the alliance's constitution, pledging all members to collective security in the event of an attack on one. However, Norway did not support the US-led war in Iraq that began on 19 March 2003. Prime Minister Bondevik held that international weapons inspectors authorized by UN Security Council Resolution 1441 to inspect Iraq's weapons programs should be given more time to do their work, and that military action should not be taken without an express Security Council resolution authorizing it. Eight out of ten Norwegian voters agreed in March 2003 that Norway should not support the US and British decision to go to war against Iraq.

## 13 GOVERNMENT

Norway is a constitutional monarchy. The constitution of 17 May 1814, as subsequently amended, vests executive power in the king and legislative power in the *Storting*. Prior to 1990, sovereignty descended to the eldest son of the monarch. A constitutional amendment in May 1990 allows females to succeed to the throne. The amendment only affects those born after 1990. The sovereign must be a member of the Evangelical Lutheran Church of Norway, which he heads. Royal power is exercised through a cabinet (the Council of State), consisting of a prime minister and at least seven other ministers of state (these numbered 19 in 2003). Since the introduction of parliamentary rule in 1884, the *Storting* has become the supreme authority, with sole control over finances and with power to override the king's veto under a specified procedure. While the king is theoretically free to choose his own cabinet, in practice the *Storting* selects the ministers, who must resign if the *Storting* votes no confidence.

The *Storting* is made up of 165 representatives from 19 counties. Election for a four-year term is by direct suffrage at age 18, on the basis of proportional representation. After election, the



Storting divides into two sections by choosing one-fourth of its members to form the upper chamber *Lagting*, with the rest constituting the lower chamber *Odelsting*. The Odelsting deals with certain types of bills (chiefly proposed new laws) after the committee stage and forwards them to the Lagting, which, after approval, sends them to the king for the royal assent; financial, organizational, political, and other matters are dealt with in plenary session. Where the two sections disagree, a two-thirds majority of the full Storting is required for passage. Constitutional amendments also require a two-thirds vote. The constitution provides that the Storting may not be dissolved.

A special parliamentary ombudsman supervises the observance of laws and statutes as applied by the courts and by public officials. His main responsibility is to protect citizens against unjust or arbitrary treatment by civil servants.

## 14 POLITICAL PARTIES

The present-day Conservative Party (Høyre) was established in 1885. The Liberal Party (Venstre), founded in 1885 as a counterbalance to the civil servant class, became the rallying organization of the Agrarian Friends' Association. The party's political program stresses social reform. Industrial workers founded the Labor Party (Arbeiderparti) in 1887 and, with the assistance of the Liberals, obtained universal male suffrage in 1898 and votes for women in 1913. The Social Democrats broke away from the Labor Party in 1921–22, and the Communist Party (Kommunistparti), made up of former Laborites, was established in 1923. The moderate Socialists reunited and revived the Labor Party organization in 1927. The Agrarian (Farmers) Party was formed in 1920; it changed its name to the Center Party (Senterparti) in 1958. The Christian People's Party (Kristelig Folkeparti), founded in 1933, and also known as the Christian Democratic Party, supports the principles of Christianity in public life.

For several decades, the Liberals were either in office or held the balance of power, but in 1935, as a result of the economic depression, an alliance between the Agrarian and Labor parties led to the formation of a Labor government. During World War II, the main parties formed a national cabinet-in-exile. Political differences between right and left sharpened in the postwar period. Attempts to form a national coalition among the four non-Socialist parties proved unsuccessful until the 1965 elections, when they gained a combined majority of 80 seats in the Storting. Per Borten, who was appointed in October 1965 to form a non-Socialist coalition government, retained office in the 1969 elections, although with a majority of only two seats.

In the 1973 general elections, the Labor Party received only 35.3% of the national vote; its representation in the Storting shrank to 62 seats, but with its Socialist allies, it was able to form a minority government. The Christian People's Party, meanwhile, registered gains, as did the Socialist Electoral League, a new coalition, which was able to take a number of votes away from the Labor Party. In 1975, the Socialist Electoral League was transformed into a single grouping known as the Socialist Left Party, comprising the former Socialist People's Party, the Norwegian Communist Party, and the Democratic Socialist Party (formed in 1972); the transformation, which resulted in a platform that voiced criticism neither of the former USSR nor of Leninist ideology, marked the first occasion when a Western Communist Party voted to dissolve its organization and merge into a new grouping with other parties.

In the 1977 elections, Labor expanded its representation to 76 seats, but its Socialist Left ally won only two seats, and their coalition commanded a single-seat majority in the Storting. Odvar Nordli, who became prime minister in January 1976, succeeding the retiring Trygve Bratteli, formed a new cabinet and remained in office until February 1981, when he quit because of ill health. His successor was Gro Harlem Brundtland, Norway's

first woman prime minister. Her term in office lasted only until September, when the non-Socialist parties obtained a combined total of more than 56% of the vote and a Conservative, Kåre Willoch, became prime minister of a minority government. In April 1983, the government was transformed into a majority coalition.

Following the loss of a vote of confidence, the coalition was replaced in May 1986 by a Labor minority government led by Brundtland, who formed a cabinet of eight female ministers out of 18. With an average age of 47, her cabinet was the youngest ever in Norway.

Labor increased its support in the 1993 election, winning 67 seats. The Center Party became the second largest party while the Conservatives and other right-wing parties suffered a decline.

The September 1997 election brought to power a coalition of Christian People's party, Liberals, and Center party and was headed by the Lutheran minister, Kjell Magne Bondevik. The coalition claimed only 42 seats in parliament and Bondevik was forced to seek compromises with opposition parties to pass legislation. In March 1999 his government lost a vote of confidence after Bondevik refused to weaken antipollution laws to allow the construction of gas-fired power plants. Norway generates most of power from nonpolluting hydro power and Bondevik was not ready to compromise Norway's environment for the sake of national gas energy.

Because the next legislative elections could only be held in September 2001, Jens Stoltenberg, the recently elected leader of the Labor party, became prime minister at the tender age of 41, becoming Norway's youngest leader. Stoltenberg pledged to seek strong ties to Europe and favored European Union membership. He also announced the privatization of Statoil, the state's oil company and Telenor, the state-owned telecommunication group. Especially, the partial sell-off of Statoil is of huge symbolic significance because of its role as the guardian of the nation's oil and gas wealth.

In the September 2001 parliamentary elections, although the Labor Party came in first, it suffered its worst defeat since 1924, taking only 24.3% of the vote, compared with 35% in 1997. Voters were disgruntled with high tax rates—in some cases 50%—and inadequate public services, including hospitals, schools, and public transportation. The far-right Progress Party gained seats. Bondevik was returned to power as prime minister, putting together a coalition of the Christian People's Party, the Liberals, and the Conservatives, with support from the Progress Party. The distribution of the parties' electoral strength in the Storting following the 2001 elections was as follows: Labor Party, 24.3% (43 seats); Conservative Party, 21.2% (38 seats); Progress Party, 14.7% (26 seats); Christian People's Party, 12.5% (22 seats); Socialist Left Party, 12.4% (23 seats); Center Party, 5.6% (10 seats); the fisherman's Coastal Party, 3.9% (2 seats); and the extreme-left Red Electoral Alliance, 1.7% (1 seat).

## 15 LOCAL GOVERNMENT

Norway had 435 municipalities of varying size in 2003, each administered by an elected municipal council. They are grouped into 19 counties (*fylker*), each governed by an elected county council. Each county is headed by a governor appointed by the king in council. Oslo is the only urban center that alone constitutes a county; the remaining 18 counties consist of both urban and rural areas. County and municipal councils are popularly elected every four years. The municipalities have wide powers over the local economy, with the state exercising strict supervision. They have the right to tax and to use their resources to support education, libraries, social security, and public works such as streetcar lines, gas and electricity works, roads, and town planning, but they are usually aided in these activities by state funds.

## 16 JUDICIAL SYSTEM

Each municipality has a conciliation council (*forliksråd*), elected by the municipal council, to mediate in lesser civil cases so as to settle them, if possible, before they go to court; under some conditions the conciliation councils also render judgments. The courts of first instance are town courts (*byrett*) and rural courts (*herredsrett*), which try both civil and criminal cases. Their decisions may be brought before a court of appeals (*lagmannsrett*), which also serves as a court of first instance in more serious criminal cases. There are six such courts: Borgarting, Eidsivating, Agder, Gulating, Frostating and Hålogaland. Appeals may be taken to the Supreme Court (Høyesterett) at Oslo, which consists of a chief justice and 17 judges. Special courts include a Social Insurance Court and a Labor Disputes Court who mediates industrial relations disputes.

The judiciary is independent of both the legislative and the executive branches. In criminal cases, defendants are afforded free legal counsel. Indigent persons are granted free legal counsel in certain civil cases as well.

## 17 ARMED FORCES

The armed forces total strength was 26,200 active personnel with reserves numbering 219,000. The army of 14,700 was equipped with 170 main battle tanks. The navy numbered 6,100 including 270 in the coast guard. The air force consisted of 5,000 personnel operating 79 combat aircraft. The navy mans six submarines, three frigates, and 15 coastal and patrol combatants. The air force flies F-16s and mans air defense guns and missiles.

Norway is the host nation for the NATO Allied Forces North headquarters and provides troops or observes for nine peacekeeping operations. The nation spent \$3.1 billion on defense in 1998 or 2.2% of GDP.

## 18 INTERNATIONAL COOPERATION

Norway has been a member of the UN since 27 November 1945; the country participates in the ECE and all the nonregional specialized agencies. Norwegian experts serve in many countries under the UN Technical Assistance program, and Norwegian specialists served with UN forces in the Democratic Republic of the Congo (previously Zaire). Norway has participated in 30 UN peacekeeping operations. The Norwegian Peace Corps, launched as an experiment in 1963, was made a permanent part of Norway's program of international aid in 1965.

Norway is a member of the Council of Europe, EFTA, NATO, the Nordic Council, and OECD, a signatory of the Law of the Sea, and a member of the WTO.

In September 1972, a referendum on EU membership was rejected by nearly 54% of the electorate. In May 1973, however, the Norwegian government signed a Special Relations Agreement with the EU and the European Coal and Steel Community, providing for free trade in industrial products between Norway and EU members. Another referendum on EU membership was held in November 1994; 52% of the electorate voted against membership.

## 19 ECONOMY

Norway, with its long coastline and vast forests, is traditionally a fishing and lumbering country, but since the end of World War I it has greatly increased its transport and manufacturing activities. Without extensive inland mineral deposits, Norway has had to seek opportunities for income abroad, hence its vital interest in areas such as fishing, whaling, and shipping. The exploitation since the late 1970s of major new oil reserves in the North Sea has had considerable impact on the Norwegian economy.

Foreign trade is a critical economic factor. Exports bring in over 40% of the GDP. As a trading nation without a large domestic market, Norway was especially vulnerable to the effects

of the worldwide recession of the early 1980s and is sensitive to fluctuations in world prices, particularly those of oil, gas, and shipping. Since the early 1980s, Norway's exports have been dominated by petroleum and natural gas, which produce one-third of commodity exports by value and roughly 14% of GDP in 1996.

Norway has a mixed economy with the government owning over 50% of domestic businesses and employing 35% of the workforce. State ownership is most dominant in the oil and mining sectors. In manufacturing, however, state ownership is down to about 10%. At considerable expense, the government provides subsidies for industry, agriculture, and outlying regions. About half of the total goes to agriculture.

Norwegian competitiveness in the global economy is hampered by a small population (4.5 million), a restrictive immigration policy, and an expensive social welfare system that places high tax burdens on the population.

In the early 1980s, the nation's economy became increasingly dependent on oil revenues, which stimulated domestic consumption and, at the same time, increased costs and prices, thus hampering the competitiveness of Norway's other export industries. The drastic decline of oil prices in 1986 caused the value of Norway's exports to fall by about 20%. Recently, the service sector has grown, accounting for 67% of GDP (2000 est.)

From 1949 to 1989 the real GDP rose on the average by 3.9% per year. The GDP fell in 1988 for the first time in 30 years. Since 1989, however, growth resumed, averaging only 1.3% during 1989–91, but climbing by an annual average of 3.7% during 1992–94. In 1998, GDP growth was 2.4%, inflation was 2.3%, and unemployment was 2.6%. In 1999, low world oil prices helped reduce growth to 1.1%, while their recovery, in 2000 helped raise GDP growth to 2.3% and an estimated 2.4% in 2002. Unemployment averaged about 3.3% 1999 to 2002, while annual price inflation was about 2.9%. Government statistics show that government spending as a percent of GDP declined from 39% in 1999 to about 34.5% in 2001, down from the estimated 50% reported by the OECD in the mid-1990s.

Norwegian voters rejected European Union membership in 1994. However, Norway is a member of the European Economic Area (EEA) which consists of the EU member countries together with Norway, Iceland, and Liechtenstein. Membership gives Norway most of the rights and obligation of the EU single market but very little ability to influence EU decisions.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Norway's gross domestic product (GDP) was estimated at \$143 billion. The per capita GDP was estimated at \$31,800. The annual growth rate of GDP was estimated at 1.6%. The average inflation rate in 2001 was 1.3%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 2% of GDP, industry 31%, and services 67%.

The World Bank reports that in 2000 per capita household consumption (in constant 1995 US dollars) was \$19,041. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 2%. Approximately 16% of household consumption was spent on food, 11% on fuel, 5% on health care, and 4% on education. The richest 10% of the population accounted for approximately 21.8% of household consumption and the poorest 10% approximately 4.1%.

## 21 LABOR

In 2000, the labor force totaled 2.4 million workers. Of those, 74% were engaged in services; 22% in industry; with the remaining 4% in agriculture, forestry, and fishing. From 1960–88, Norway's average unemployment rate was only 1.6%. Unemployment gradually increased during the 1970s, and decreased from 5.5% in 1991 to 3.9% in 2002.

The Norwegian Confederation of Trade Unions (LO), founded in 1899, had all national trade unions as its affiliates by 1905. In 2002, the unions composing the LO represented some 60% of the employed labor force. The Norwegian Employers' Confederation, founded in 1900, agreed in 1907 to national collective bargaining, but industrial disputes remained a chronic problem until the Trades Dispute Act of 1952 facilitated mediation in place of arbitration. A system of compulsory unemployment insurance was established in 1959, which provides in part for financial aid for vocational training. Antiunion discrimination is prohibited by law.

In 1919, the eight-hour day was established, together with paid holiday periods. In 1986, the workweek was reduced to 37.5 hours. There is no legal minimum wage. Norwegian workers receive four weeks plus one day of annual vacation time with pay. Under the 1972 amendments to the Joint Stock Companies Act, workers must be represented on corporate boards of directors or other decision-making authorities in both private and public enterprises; generally, employee representatives make up one-third of a company board. Children between the ages of 13 and 18 years may engage in light work that will not negatively affect their health or education, but only on a part-time basis.

## 22 AGRICULTURE

Agricultural land in 1998 comprised 902,000 ha (2,229,000 acres), or about 3% of the country's total land (excluding Svalbard and Jan Mayen). While the area under wheat and mixed grains has dropped sharply since 1949, that for rye, oats, and barley has more than doubled. The greater part of these crops is used to supplement potatoes and hay in the feeding of livestock. In 2002, the area planted with barley, oats, rye, and triticale covered 80% of all the 18,415 holdings for grains and oilseeds. Grain production utilized 320,600 ha (792,200 acres) in 2002.

Although the proportion of larger farms has been increasing, most farms in 1990 were still small, with about 99% of the 84,635 farm holdings (including meadows) consisting of less than 50 ha (124 acres) of arable land. Because of the small size of the holdings, many farm families pursue additional occupations, mainly in forestry, fishing, and handicrafts. Yields in 2001 included 1,203,000 tons of grain (51% barley, 28% oats, 21% wheat) and 388,200 tons of potatoes. Østfold county accounted for 21% of Norway's grain production in 2001; Hedmark county for 34% of potato production that year. Norway imports most of its grain and large quantities of its fruits and vegetables.

With steep slopes and heavy precipitation, Norway requires substantial quantities of fertilizers to counteract soil leaching. Smallholders and those in marginal farming areas in the north and in the mountains receive considerable government assistance for the purchase of fertilizers. Mechanization of agriculture is developing rapidly. In 1998, Norwegian farmers used 148,000 tractors and 16,000 combines.

Since 1928, the state has subsidized Norwegian grain production; a state monopoly over the import of grains maintains the price of Norwegian-grown grains. The Ministry of Agriculture has divisions dealing with agricultural education, economics, and other aspects. Each county has an agricultural society headed by a government official. These societies, financed half by the district and half by the state, implement government schemes for improving agricultural practices.

## 23 ANIMAL HUSBANDRY

Norway is self-sufficient in farm animals and livestock products. In 2001, there were 2,408,000 sheep, 986,000 head of cattle, 391,000 hogs, 28,000 horses, and 3,200,000 fowl. Norway is well known for its working horses. By careful breeding, Norway has developed dairy cows with very good milk qualities; artificial insemination is now widely used. In 2001, production included 85,800 tons of beef and veal, 109,000 tons of pork, 25,000 tons of mutton and lamb, 1,669,000 tons of milk, 82,700 tons of cheese, 49,000 tons of eggs, and 13,500 tons of butter. Norwegian production of milk, cheese, and meat satisfies local demand.

The breeding of furbearing animals has been widely undertaken, and good results have been obtained with mink. In 1998, there were 623,000 farm-raised foxes and 388,000 mink. Nearly 200,000 reindeer graze in the north and on the lichen-clad mountains. Exports of hides and skins amounted to \$66.1 million in 2001; dairy and eggs, \$69.4 million.

## 24 FISHING

Fishing is of modest importance, with 2,646,000 tons caught in 2001. The main commercial species are herring, cod, mackerel, and sardines. The value of fish and fishery products exported in 1997 was \$3.4 billion, with exports to the EU market accounting for 66% of the value. In 1998, exports of fish reached a record \$3.72 billion—double the 1988 value.

Cod spawn in March and April off the Lofoten Islands. The Lofoten fisheries are coastal, permitting the use of small craft, but there has been increased use of large trawlers that fish in the waters of Greenland, the Norwegian Sea, and the Barents Sea. Cod roe and liver (yielding cod-liver oil) are valuable by-products. In recent years there has been concern about declining wild fish stocks in the sea, but for Norway the wild fish catches seem to increase almost every year. According to the Norwegian Institute of Marine Research, the most important fish stocks in northern Norwegian waters have stabilized, and will remain at a high level in the years to come. The traditional wage system is on a share-of-the-catch basis. In view of the seasonal nature of the fisheries, many men work also in agriculture or forestry, and the supplementary income from part-time fishing is important to small farmers.

Aquaculture is also important in Norway, with over 3,500 workers and 700 facilities located along the entire coast from the Swedish border in the south to Finnmark far north of the Arctic Circle. The production of farmed salmon reached 411,000 tons in 2001 from 820 fish farm operations.

In 2000, sealing expeditions hunting in the Arctic Ocean caught 20,549 seals. Norway was one of the four countries that did not agree to phase out whaling by 1986, having opposed a 1982 resolution of the International Whaling Commission to that effect. In 2000, 487 minke whales were reportedly caught.

## 25 FORESTRY

Norway's forestland totals 8,868,000 ha (21,913,000 acres), of which over 80% is owned by individuals, 9% by the state, and 7% by local governments; the remainder is held by institutions, companies, and cooperatives.

The state subsidizes silviculture and the building of forest roads. In 2001, removals amounted to 8,379,000 cu m (295.8 million cu ft), of which 91% was coniferous industrial wood and 8% was fuel wood. Sawn wood production in 2000 totaled 2,463,000 cu m (86.9 million cu ft); wood pulp, 2,520,000 tons; and paper and paperboard, 2,301,000 cu m (81 million cu ft). The value of roundwood exported was \$20.5 million in 2000, when Norway's trade surplus in forest products amounted to \$804.7 million. The Norwegian Forest Research Institute has centers near Oslo and Bergen.

## 26 MINING

Mining was Norway's oldest major export industry—some working mines were established more than 300 years ago—and, for a time, silver, iron, and copper were important exports. Iron pyrites and iron ore were still mined in considerable quantities. Petroleum and gas comprised Norway's leading industry in 2002, and metals, chemicals, and mining were among other leading industries. Among export commodities, petroleum and petroleum products ranked first—Norway was vying with Russia to be the second-largest exporter of oil—while metals and chemicals followed close behind. Known deposits of other minerals were small; they included limestone, quartz, dolomite, feldspar, and slate. In 2001, production of iron ore and concentrate (metal content) was 340,000 tons, down from 462,000 in 1997; titanium (metal content) production was 265,000 tons. Norway also produced nickel, hydraulic cement, dolomite, feldspar, graphite, lime (hydrated, quicklime), limestone, flake mica, nepheline syenite, nitrogen, olivine sand, quartz, quartzite, soapstone, steatite, sulfur (as a byproduct), and talc. No lead or zinc was mined in 1998–2001, and no copper or pyrite in 1999–2001. The largest titanium deposit in Europe was at Soknedal. A large plant at Thamshavn used half the Orkla mines' output of pyrites for sulfur production. Reserves of minerals generally have been depleted, except for olivine, which was abundant. There has been recent gold exploration, and a zinc exploration program in the Roros district confirmed the existence of extensive stratiform sulfide mineralization with dimensions of a type that could host commercial deposits.

## 27 ENERGY AND POWER

Norway, always well supplied with waterpower, has become self-sufficient in energy through the exploitation of vast petroleum and natural gas deposits in the North Sea. The major fields include Ekofisk, Frigg, Sleipner, Statfjord, Troll, and Oseberg. The Frigg field, first tapped in 1972, is one of the world's largest offshore natural gas deposits. As of 2002, Norway was the world's third-largest exporter of oil. Its oil sector had gone through a period of transition that included the privatization of the state-owned oil companies Statoil and Norsk Hydro in 2001. Most of the State Direct Financial Interest (SDFI), which managed holdings in 150 offshore oil and gas fields and controlled around 40% of the country's oil production, had been reorganized to form a new entity called Petoro. Norway's proven oil reserves were 9.44 billion barrels at the beginning of 2002. Natural gas reserves totaled 1.2 trillion cu m (42 trillion cu ft). Oil production in 2001 was 3.4 million barrels per day; production of natural gas was 51.2 billion cu m (1.8 trillion cu ft).

Electric power production in 2000 totaled 140.9 billion kWh, which was almost entirely hydroelectric. Installed capacity was 27,937 million kW. Norway is one of the world's largest per capita consumers of electricity. Consumption in 2000 was 112.5 billion kWh. Retail distribution is by municipal organizations; virtually the entire population is now served. With the exhaustion of hydroelectric resources and an abundance of natural gas, a greater proportion of the nation's power was expected to come from gas-fired plants in the future. As of 2002 three new gas-fired plants were slated for construction, including a combined heat and power plant in Skogn.

Until 1960 Norway imported almost all of its refined petroleum products. The importance of coal and other solid fuels has steadily declined in recent years both in terms of total consumption and in relation to other forms of energy, while hydroelectric power and petroleum products have rapidly increased in importance.

## 28 INDUSTRY

Manufacturing, mining, and crude petroleum and gas production accounted for nearly 31% of the GDP in 2000. The most important export industries are oil and gas extraction, metalworking, pulp and paper, chemical products, and processed fish. Products traditionally classified as home market industries (electrical and nonelectrical machinery, casting and foundry products, textiles, paints, varnishes, rubber goods, and furniture) also make an important contribution. Electrochemical and electrometallurgical products—aluminum, ferroalloys, steel, nickel, copper, magnesium, and fertilizers—are based mainly on Norway's low-cost electric power. Without any bauxite reserves of its own, Norway has thus been able to become a leading producer of aluminum. Industrial output is being increasingly diversified.

About half of Norway's industries are situated in the Oslofjord area. Other industrial centers are located around major cities along the coast as far north as Trondheim. Norway had two oil refineries, with a capacity of 310,000 barrels per day in 2002. In the early 2000s, despite an improvement in world oil prices, investment in offshore oil and natural gas remained in decline, in part due to the completion of major projects, such as the Aasgard field. Crude oil and natural gas accounted for 58% of merchandise exports in 2000, and petroleum production rose to 22.7% of GDP in 2000, compared with 14.2% in 1999. Norway's oil and gas reserves are declining; discovered oil reserves were projected to last 18 years in 2000, and natural gas reserves to last 95 years. About 35% of industry is state-owned, including control of the state oil company, Statoil.

## 29 SCIENCE AND TECHNOLOGY

A highly advanced industrialized nation, Norway invested 1.6% of its GNP on basic scientific research and technological development in 1987–97. In 1998, high-tech exports were valued at \$1.9 billion and accounted for 16% of manufactured exports. Public funds account for about 60% of research expenditures, either as direct grants from the central government or as proceeds from the State Football Pool, whose net receipts are divided between research and sports. In 1987–97, 1,842 technicians and 3,664 scientists and engineers were engaged in research and development.

The four principal research councils are the Agricultural Research Council of Norway, the Norwegian Research Council for Science and the Humanities, the Royal Norwegian Council for Scientific and Industrial Research, and the Norwegian Fisheries Research Council, each attached to separate government ministries. The councils recruit researchers by means of fellowship programs and allocate research grants to universities. They are part of the Science Policy Council of Norway, an advisory board to the government on all research matters. Principal areas of current study are arctic research, specifically studies of the northern lights; oceanography, especially ocean currents; marine biology, with special attention to fish migration; and meteorology.

The Royal Norwegian Society of Sciences and Letters, founded in 1760, has a Natural Sciences section. The country has 12 other scientific and technical learned societies and 24 scientific and technical research institutes. Located in Oslo are the Botanical Garden and Museum (founded in 1814), the Norwegian Museum of Science and Industry (founded in 1914), and other museums devoted to mineralogy-geology, paleontology, and zoology. The country has six universities and colleges offering courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 26% of university enrollment.

### 30 DOMESTIC TRADE

Oslo, the principal merchandising center, handles the distribution of many import products; Bergen and Stavanger are other west coast distribution centers. Trondheim is the chief northern center; Tromsø and Narvik are also important. The largest number of importers, exporters, and manufacturers' agents are in Oslo and Bergen. A 10% value-added tax (VAT) applies to many food products. A 24% VAT applies to most other goods and services.

Cooperative societies are an important distribution factor, with local groups operating retail stores for many kinds of consumer goods, especially in the food sector. Food market chains have developed rapidly in recent years. The Norwegian Cooperative Union and Wholesale Society represents a large number of societies, with over half a million members. Agricultural cooperatives are active in produce marketing and cooperative purchasing societies (*Felleskjöp*) do much of the buying of farm equipment, fertilizer, and seed.

The Norwegian Consumer Council (established by the Storting in 1953) advances and safeguards the fundamental interests of consumers. It publishes comprehensive reports on accepted standards for key consumer goods, conducts conferences and buying courses in various parts of Norway, arranges consumer fairs, and cooperates closely with other organizations and institutions interested in consumer protection. Newspapers provide the main medium for advertisements; trade and other journals carry advertising, but the state-owned radio and television do not.

Shopping hours are usually from 9 AM to 5 PM on weekdays and from 9 AM to 1 PM on Saturdays. Banks stay open from 9 AM to 3 PM Monday–Friday. Some manufacturers and major businesses will close for three to four weeks in July and/or August for a summer vacation.

### 31 FOREIGN TRADE

Foreign trade plays an exceptionally important role in the Norwegian economy, accounting, with exports of goods and services, for some 43% of the GDP in the mid-1990s. Exports are largely based on oil, natural gas, shipbuilding, metals, forestry (including pulp and paper), fishing, and electrochemical and electrometallurgical products. The manufacture of oil rigs, drilling platforms, and associated equipment has developed into a sizable export industry. Norway imports considerable quantities of motor vehicles and other transport equipment, raw materials, and industrial equipment. Exports tripled between 1974 and 1981, largely on the strength of the petroleum sector, which accounted for a negligible percentage of exports in 1974 but half the total export value in 1981. During the same period, imports advanced by 93%. Following years of trade deficits, Norway had surpluses from 1980 through 1985. However, the drastic fall in oil prices caused a decline in export value resulting in deficits between 1986 and 1988. Since 1989, Norway has once again consistently recorded trade surpluses.

Norway exports a substantial amount of crude petroleum, and a large percentage of the world's preserved and fresh fish. The top nine exports follow:

	% OF COUNTRY TOTAL
Crude petroleum	49
Natural and manufactured gas	9.8
Fish	5.7
Refined petroleum products	4.6
Aluminum	3.9
Ships	1.9
General industrial machinery	1.5
Paper	1.4
Iron and steel	1.3

In 2000 Norway's imports were distributed among the following categories:

Consumer goods	18.5%
Food	5.7%
Fuels	3.1%
Industrial supplies	26.9%
Machinery	24.0%
Transportation	19.9%
Other	1.9%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United Kingdom	12,375	2,787	9,588
Netherlands	6,857	1,340	5,517
Germany	6,171	4,080	2,091
France	6,009	1,374	4,635
Sweden	5,042	5,047	-5
United States	4,642	2,826	-1,816
Denmark	2,293	2,189	104
Belgium	2,073	636	1,437
Finland	1,299	1,221	78
Italy	1,119	1,081	38
Japan	989	1,774	-785

### 32 BALANCE OF PAYMENTS

Norway's foreign exchange reserves have been built up to meet adverse developments in the balance of payments without the necessity of a retreat from the liberalization of imports. Until the oil boom of the late 1970s, imports regularly exceeded exports, but large deficits on current account were more than offset by the capital account surplus, giving a net increase in foreign exchange reserves. As of 2003 Norway was the world's third-largest exporter of oil, behind only Saudi Arabia and Russia.

Norway's economy is less open to trade than the Western European average, with total exports and imports of goods and services equal to 46.3% and 29.2% of GDP, respectively, in 2001.

As of 2003, the economy was technically in a recession, but GDP growth was forecast to rise to 2% in 2004. Although the current account was forecast to remain in surplus, the surplus was projected to narrow as the trade surplus declined.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Norway's exports was \$68.2 billion while imports totaled \$37.3 billion resulting in a trade surplus of \$30.9 billion.

The International Monetary Fund (IMF) reports that in 2001 Norway had exports of goods totaling \$59.7 billion and imports totaling \$33.7 billion. The services credit totaled \$18 billion and debit \$15.4 billion. The following table summarizes Norway's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>25,960</b>
Balance on goods	26,018
Balance on services	2,566
Balance on income	-940
Current transfers	-1,684
<b>Capital Account</b>	<b>-93</b>
<b>Financial Account</b>	<b>-23,877</b>
Direct investment abroad	-1,086
Direct investment in Norway	2,166
Portfolio investment assets	-29,420
Portfolio investment liabilities	2,756
Other investment assets	-2,261
Other investment liabilities	2,935
<b>Net Errors and Omissions</b>	<b>-4,104</b>
<b>Reserves and Related Items</b>	<b>2,114</b>

### 33 BANKING AND SECURITIES

The Bank of Norway was founded as a commercial bank in 1816; in 1949, all its share capital was acquired by the state. It is the central bank and the sole note-issuing authority. The bank discounts treasury bills and some commercial paper; trades in bonds, foreign exchange, and gold and silver; and administers foreign exchange regulations. The bank also receives money for deposit on current account but generally pays no interest on deposits. The head office is in Oslo, and there are 20 branches.

In 1938 there were 105 commercial banks, but mergers brought the total down to only 31 in 1974 and 21 in 1984. As of 1993, the total was down to 20. The three largest—the Norske Creditbank, Bergen Bank, and Christiania Bank og Kreditkasse—account for more than half of the total resources of the commercial banks. In 1988, a number of small savings banks and one medium-sized commercial bank, Sunnmørsbanken, became illiquid or insolvent. Most were rescued by merging with larger banks. After a slight improvement in 1989, however, banks' positions deteriorated again in 1990 following heavy losses sustained in the securities markets. As commercial property prices continued to fall, the position of the country's second and third largest commercial banks, Christiania and Fokus, became increasingly precarious. To prevent a loss of confidence in the banking system, the government established a Government Bank Insurance Fund in March 1991. Within months this was called upon to provide capital to support the country's three largest banks, two of which—Christiania and Fokus—were by then insolvent.

By the late 1990s, increasing pressure fell upon Norway to shed its nationalistic protection of its banking industry and allow for foreign investment, particularly from its Nordic neighbors. Throughout the fall of 1998 and into 1999, attention centered on the fate of Christiania as two attempted merger attempts fell through. As of mid-October 1999, Christiania was seeking to merge with MeritaNordbanken in order to avert a hostile takeover by either Swedish Svenska Handelbanken or Danish Den Norske Bank. A merger with MeritaNordbanken would make create the largest bank in the Nordic and Baltic.

Ten state banks and other financial institutions serve particular industries or undertakings, including agriculture, fisheries, manufacturing, student loans, mortgages, and others. Although savings banks also have been merging in recent years, there were still 133 private savings banks and many credit associations in 1993.

A law of 1961 contains measures to implement the principle that banking policies are to be based on social as well as economic and financial considerations. The government appoints 25% of the representatives on the board of every commercial bank with funds of over Kr100 million. Guidelines for these banks are worked out cooperatively with public authorities.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$73.4 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$87.6 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 8.5%.

The stock exchanges of Norway are at Oslo (the oldest, founded 1818), Trondheim, Bergen, Kristiansund, Drammen, Stavanger, Ålesund, Haugesund, and Fredrikstad. Amid the increasing consolidation among European stock exchanges in the late 1990s, calls increased for the Norwegian markets to merge.

### 34 INSURANCE

Norwegian insurance can be undertaken only by joint-stock companies of mutual assistance associations. Foreign life insurance companies have practically ceased to operate in

Norway. Life insurance policies and those for pension schemes are exempt from income tax and cannot be written by firms doing other insurance work.

The crown in 1767 initiated compulsory fire insurance in towns, and this fund still exists. Workers' compensation, third-party auto liability, pharmaceutical product liability, and aircraft liability are all compulsory insurances as well.

For marine insurance, stock companies now are more important than mutual associations. While a number of foreign insurance underwriters transact business in Norway, there is considerable direct insurance of Norwegian vessels abroad, especially in London. Most other insurance, such as automobile and burglary, is underwritten by Norwegian concerns. The insurance regulatory authority is the Banking, Insurance, and Securities Commission (BISC). The insurance sector is highly regulated, deeply influenced by the failure of a nonlife insurance company, Dovre, which spurred the Insurance Activities Act of 1988, which became effective in April 1989. The Insurance Activities Act of 1988 allows the BISC to control premium rates, monitor the financial position of insurance companies, and the risks that the insurance company writes. The BISC has wide powers of intervention. Companies may engage in insurance business after special permission has been granted and a license is obtained from the government. Recent liberalization throughout Europe promises to change radically the structure of the Norwegian insurance industry as foreign firms tap into the market. Direct insurance premiums written in 2001 totaled US\$8.008 billion; US\$4.098 billion of the total was nonlife insurance premiums, and US\$3.91 billion was life insurance.

### 35 PUBLIC FINANCE

Norway's fiscal year coincides with the calendar year. As one of the per capita richest countries in the world, Norway has a great deal of money to spend on investment, focusing especially on the offshore oil sector. The government maintains a Petroleum Fund that reached \$67 billion at the end of 2001. The Fund will be used to finance government programs once oil and gas resources are depleted.

The US Central Intelligence Agency (CIA) estimates that in 2000 Norway's central government took in revenues of approximately \$71.7 billion and had expenditures of \$57.6 billion. Overall, the government registered a surplus of approximately \$14.1 billion. External debt totaled \$0.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	71,700
Tax revenue	80.2%	57,494
Non-tax revenue	19.6%	14,017
Capital revenue	0.1%	53
Grants	0.2%	136
EXPENDITURES	100.0%	58,782
General public services	5.4%	3,095
Defense	6.2%	3,576
Public order and safety	2.3%	1,343
Education	6.5%	3,755
Health	4.8%	2,765
Social security	40.0%	23,049
Housing and community amenities	0.5%	271
Recreation, cultural, and religious affairs	1.2%	703
Economic affairs and services	11.2%	6,477
Other expenditures	19.6%	11,275
Interest payments	4.3%	2,473

### 36 TAXATION

Both the central government and the municipal governments levy income and capital taxes. There is also a premium payable to the National Insurance Scheme. For individual taxpayers, income taxes and premiums adhere to the pay-as-you-earn system.

Taxes on corporations are paid in the year following the income year. Corporate income taxes are levied at a flat rate of 28% (a combination of 21.25% national tax, and 6.75% municipal tax). Also, employers contribute up to 16.7% of paid wages to the Social Security Scheme. Companies involved in oil or gas pay a special oil tax of 50% in addition to the standard 28%. All income from capital is taxable at 28%, except dividends, which are taxed at 11%.

Central government personal income taxes are levied at progressive tax rates, which differ for single taxpayers (class one), those with one or more dependents (class two), and for nonresidents (class zero). In 2002, individuals in Class one and Class zero were liable for a municipal tax of 28% on the increment of income above 28,800 Kroner (about \$4,000); for Class two taxpayers, the threshold for the 28% tax was twice that amount (57,600 Kroner). The national income tax schedule in 2002 had three brackets. For individuals these were 0% up to 289,000 Kroner (about \$40,000); 13.5% on the next increment of income up to 793,000 Kroner (about \$109,3000); and 19.5% on the increment of income above this level. The only difference for Class two taxpayers, with dependents, was an increased tax-free base of 342,200 Kroner (\$47,160). A number of additional deductions from taxable income are available including allowance for some travel expenses, insurance payments, mortgage interest payments, living allowances, and deductions for contributions to capital investments. A withholding tax on wages can be credited against income taxes. There is also a municipal wealth tax, ranging from 0% to 1.1% and a land tax with rates from 0.2% to 0.7%. Gifts and inheritances are taxed according to progressive schedules with a maximum rate of 30%. The premium for the National Insurance Scheme is 7.8% of assessed income for wage earners, 3% for pensioners, and 10.7% for the self-employed.

The main indirect tax is Norway's value-added tax (VAT), with a standard rate that has increased from 20% in 1999 to 24% in 2003. A reduced rate of 12% is applied to basic foodstuffs, and there is an extensive list of VAT-exempt goods and services, including health and social services, education, passenger transport, hotel accommodations, travel agents, government supplies, etc. Stamp duties are charged at a rate of 2.5%.

### 37 CUSTOMS AND DUTIES

Heavily dependent on foreign trade, Norway has traditionally supported abolition of trade barriers. During the 1950s, direct control of imports was gradually abolished. Tariff rates on industrial raw materials and most manufactured goods are low; duties on finished textile products are levied at 15–25%.

A signatory of GATT and a member of EFTA, Norway has bilateral trade agreements with many countries in every part of the world. In 1973, Norway signed a Special Relations Agreement with the European Community (now the European Union), whereby both sides abolished all tariffs on industrial goods over the 1973–77 period. Other trade goods receiving gradual tariff reductions were fish, agricultural products, and wine.

Although Norwegian voters rejected EU membership in a 1994 referendum, Norway, as a member of the European Economic Area (EEA) maintains a free trade agreement with the European Union.

### 38 FOREIGN INVESTMENT

Foreign capital is largely centered in Norway's electrochemical and electrometallurgical industries, the primary iron and metal industry, and mining. The discovery of oil and natural gas in the North Sea area spurred foreign investments. The Ekofisk oil field was discovered in 1969 by an American Phillips Petroleum Co. consortium, including Petrofina of Belgium, ENI of Italy, and Norway's Petronord. A joint Norwegian-Phillips group company, Norpiepe, was formed in 1973 to construct the pipelines and to operate them for 30 years. Another US company, McDermott International, was awarded a \$150-million contract in 1982 to lay pipe from the Statfjord gas field in the North Sea to the Norwegian mainland. In January 1995, 11 international oil and gas companies announced plans for a \$1.2–\$1.35 billion gas pipeline from Norway's North Sea production area to the European continent. In October of the same year, Fokus, Norway's third-largest commercial bank, fell under foreign control as foreign investors captured more than half the shares for sale in the bank's privatization.

Foreign direct investment (FDI) stock in Norway totaled about \$21.4 billion in 1997. FDI inflow was nearly \$3 billion in 1997 and more than \$3.3 billion in 1998. Annual FDI inflow peaked in 1999 and 2000, at \$6.7 billion and \$6.3 billion, respectively, but in the global economic slowdown of 2001 fell to \$2.8 billion. In 2002, FDI inflows increased to \$3.4 billion. In terms of its attractiveness for foreign investment, Norway was ranked fourth in the world on UNCTAD's list of 140 countries for the period 1998 to 2000, up from fifth place for 1988 to 1990. Total FDI stock in Norway as of 2001 was \$40.2 billion, equivalent to 18.7% of GDP. Norway's share in world FDI flows has been approximately equal to its share of world GDP.

Outward FDI flows from Norway averaged \$5.3 billion for the four years 1999 to 2002. More than 2,000 enterprises have foreign investors holding at least 20% of the capital. Total outward FDI stock held by Norwegians totaled \$40.7 billion as of 2001.

### 39 ECONOMIC DEVELOPMENT

The government holds shares in a number of large enterprises: a minority of shares in most industrial establishments and all or controlling shares in some armaments factories, as well as in chemical and electrometallurgical companies, power stations, and mines. The government also participates in joint industrial undertakings with private capital, in enterprises too large or risky for private capital, and in establishments with shares formerly held by German interests. Government policy also aims at attracting foreign investment.

Rapid industrial development and exploitation of resources are major governmental goals, with special emphasis on northern Norway, where development has lagged behind that of the southern areas. The Development Fund for North Norway, established in 1952, together with a policy of tax concessions, resulted in progress there at a rate more rapid than that of the rest of the country. The exploitation of offshore oil and natural gas reserves has had a profound effect on Norway's economy in recent years. Increased oil revenues have expanded both domestic consumption and investment. The government has used oil revenues to ease taxes and increase public investment in regional development, environmental protection, social welfare, education, and communications. In 1992, Norway's offshore oil and taxes amounted to KR32,299 million. Although the expansion of innovative oil development projects—such as the \$4.2 billion Heidrun oil project—continues, Norway is looking to produce more natural gas than oil. The \$5 billion Troll gas field is one such project.

A tax law permits industry and commerce to build up tax-free reserves for future investment, foreign sales promotion, and

research. Designed to provide a flexible tool for influencing cyclical developments, the law's intent is to help ensure that total demand at any given time is sufficient to create full employment and strong economic growth. In the late 1970s, the government introduced combined price and wage agreements in an effort to restrain inflation and ensure real increases in buying power for consumers.

To stimulate industry, incentives are available for undertakings in the north as well as in other economically weak regions; companies may set aside up to 25% of taxable income for tax-free investment. Tariff incentives are available for essential imports. A Regional Development Fund grants low-interest, long-term loans to firms to strengthen the economy of low-income, high-unemployment areas anywhere in the country.

In 1991, the government introduced a three-year program to improve infrastructure and reduce unemployment. This plan was to spend nearly KR10 billion, primarily for road and rail communications, with the money coming from budget cuts in other areas.

Although Norwegians rejected EU membership in a 1994 referendum, Norway's economy is largely integrated with that of the EU. Norway has a free trade agreement with the EU; its currency is generally kept on par with the euro. Yet despite these elements of association, Norway retains extensive control over its own economic development policies.

Norway has been active in aiding developing nations under the Norwegian Agency for International Development. The leading recipients have been Tanzania, Mozambique, Zambia, Bangladesh, Nicaragua, and Ethiopia. Norway is one of four countries meeting the UN international aid target for donor countries (0.7% of national income); Norway gave 0.91% of gross domestic product (GDP) in 1999.

The country's Petroleum Fund reached \$67 billion at the end of 2001; the fund will be used to finance government programs once Norway's oil and gas resources run out. The mainland economy was in recession in 2003; however, GDP growth was forecast for 2% in 2004. The offshore sector absorbs a large percentage of investment.

#### 40 SOCIAL DEVELOPMENT

Norway has been a pioneer in the field of social welfare and is often called a welfare state. Accident insurance for factory workers was introduced in 1895, unemployment insurance in 1906, compulsory health insurance in 1909, and accident insurance for fishermen in 1908 and for seamen in 1911. In the 1930s, further social welfare schemes were introduced: an old-age pension scheme; aid for the blind and crippled; and unemployment insurance for all workers except fishermen, whalers, sealers, civil servants, domestic servants, self-employed persons, salesmen, and agents. In the postwar period, health insurance became compulsory for all employees and available to self-employed persons; coverage includes dependents, with medical treatment including hospital and other benefits. Sickness benefits, family allowances during hospitalization, and grants for funeral expenses are paid. Costs of this scheme are met by deductions from wages and contributions by employers and by state and local authorities. Public assistance, available in Norway since 1845, supplements the foregoing programs. Social welfare has long included maternity benefits with free prenatal clinics.

The National Insurance Act, which came into effect in 1967, provides old-age pensions, rehabilitation allowances, disability pensions, widow and widower pensions, and survivor benefits to children. These separate programs were combined into the National Insurance Scheme in 1971. Membership is obligatory for all residents of Norway, including noncitizens, and for Norwegian foreign-service employees. Pensions begin at the age of 67. Benefits are graded according to the individual's previous income and years of employment. This program is funded by a

7.8% contribution from employees, and a 14.1% contribution by employers. The government funds any deficit.

Workers' compensation covers both accidents and occupational diseases. Compensation is paid to a widow until she remarries, and to children up to the age of 18 (or for life if they are unemployable). Dependent parents and grandparents also are eligible for life annuities. Family allowance coverage, in force since 1946, is provided for children under the age of 16.

The law mandates equal wages for equal work by men and women, although economic discrimination persists. An Equal Rights Ombudsman addresses complaints of sexual discrimination. A provision protecting against sexual harassment is outlined in the Working Environment Act. A shortage of day-care facilities has hampered the entry of women as full-time wage earners. Violence against women persists but is seriously investigated and prosecuted by authorities. Victims assistance programs and battered women's shelters are available.

Provisions exist to protect the rights and cultural heritage of minority peoples. The Sami (Lapps) located in the northeast are entitled to schooling in their local language, and also receive radio and television broadcast subtitled in Sami. The Sami also have a constituent assembly that acts as a consultative body on issues that affect them.

Human rights are fully respected and protected in Norway.

#### 41 HEALTH

Since 1971, there has been a tax-based National Insurance Scheme. The public health service and the hospitals are the responsibility of the government at the central, county, and municipal levels. There are very few private hospitals in Norway. Hospital care is free of charge, but a minor sum is charged for medicine and primary health care. As of 1984, there has been a ceiling on the total amount one must pay for medical services. There is a three-part system made up of regional hospitals serving parts of the country, central hospitals serving the various counties, and local hospitals, also run by the counties. The country is in need of more nursing homes for the elderly. Most general hospitals are public; others are owned by the Norwegian Red Cross or other health or religious organizations. As of 1999, there were an estimated 2.8 physicians and 14.4 hospital beds per 1,000 people. As of 1999, total health care expenditure was estimated at 9.2% of GDP.

On the local level, health councils are responsible for public health services, including tuberculosis control and school health services, and for environmental sanitation. Only in densely populated areas are public health officers appointed on a full-time basis; otherwise they engage in private practice as well. In some areas, they are the only physicians available.

Infant mortality has been appreciably reduced in recent years and, in 2000, stood at 4 per 1,000 live births, one of the lowest rates in the world. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 12.4 and 9.8 per 1,000 people. In 1993, about 71% of married women (ages 15 to 49) were using contraception. Low birth weight was seen in 5% of all births in 1999. The maternal mortality rate was only 6 per 100,000 live births in 1998. Average life expectancy, among the highest in the world, was 79 years in 2000. As of 1999 the number of people living with HIV/AIDS was estimated at 1,600 and deaths from AIDS that year were estimated at 8. HIV prevalence was 0.1 per 100 adults. In 1996, there were 15,528 abortions.

In 1997, children up to one year of age were vaccinated against diphtheria, pertussis, and tetanus, 92%; polio, 92%; and measles, 93%. Tuberculosis tests are given on a regular basis from infancy onward. Children go through a comprehensive vaccination program and also receive psychotherapy and dental care throughout their nine years of basic school.



Tobacco consumption has decreased slightly from 2.0 kg (4.4 lbs) in 1984–86 to 1.9 kg (4.2 lbs) a year per adult in 1995. Alcohol consumption per capita was lower than the industrialized countries average.

The heart disease mortality rates were higher than the average for high human development countries. In the mid-1990s the likelihood of dying after age 65 of heart disease was 340 per 1,000 people for men and 374 per 1,000 for women. In 1993 there were 20,864 deaths from coronary artery disease.

## 42 HOUSING

Before World War II, responsibility for housing rested mainly with the municipalities, but the state has since assumed the major burden. Loans and subsidies keep rents under a certain percentage of a family's income. Cooperative housing has made great progress in such densely populated areas as Oslo, where the Oslo Housing and Savings Society pioneered the practice for Norway. With housing problems compounded by wartime destruction and postwar increases in marriages and in the birthrate, Norway built more dwellings per 1,000 inhabitants than any other European country, completing between 31,000 and 42,000 units annually from 1967 through 1981.

As of 2001, Norway had 1,961,548 dwelling units; 57% of them were detached houses. In 2001, 21,099 new dwellings were completed. In 2002, at least 22,980 new dwellings were under construction.

Home construction financing has come principally from two state loan organizations, the Norwegian Smallholdings and Housing Bank and the Norwegian State Housing Bank, but one-fourth of the nation's housing is still privately financed.

## 43 EDUCATION

There is virtually no adult illiteracy in Norway. Elementary school education has been compulsory since the middle of the 18th century. The Basic Education Act of 1969 introduced a nine-year system of compulsory education for all children between the ages of 7 and 16. In 1997, 330,619 students were enrolled at the primary level. Local authorities generally provide school buildings and equipment and the central government contributes funds towards teachers' salaries and covers a considerable proportion of the cost of running the schools. Although there are private schools, government authorities bear a major share of the financial responsibility for these through a system of grants.

Secondary school for students from 16 to 19 involves theoretical, practical, or a combination of both types of education. In 1994, reforms in the secondary education system were introduced. The number of basic courses was reduced from 100 to 13, and the fields of study were made more generalized at this level with greater specialization at higher levels. Three-year general secondary schools (gymnasiums) prepare students for the university. In the 1997 academic year, 368,074 students were enrolled in the gymnasiums and other secondary schools. In recent years, it has become possible for students to enter a university without having passed through a gymnasium. Since 1976, the upper secondary school system has included vocational schools of various types, operated by the state, by local authorities, and by the industrial sector. As of 1999, 100% of primary-school-age children were enrolled in school, while 96% of those eligible attended secondary school.

Norway's institutions of higher education include 130 colleges and four universities, with a total enrollment of 185,320 in 1997; teaching staff totaled 13,665. The four major universities include the University of Oslo (founded in 1811), the University of Bergen (1948), the University of Trondheim (1969), and the University of Tromsø (1969). Representing fields not covered by the universities, there are also specialized institutions, such as the Agricultural University of Norway (near Oslo); the Norwegian

School of Economics and Business Administration (Bergen); and the Norwegian College of Veterinary Medicine (Oslo).

Universities and colleges in Norway serve a dual function—both learning and research. At the four universities, degrees are granted at three levels: Lower degree (a four-year study program); higher degree (five to seven-year course of study); and doctorate degree. There are also courses lasting from five to seven years in law, medicine, agriculture, or engineering.

With a goal of placing adults on an equal standing with the educated youth and giving them access to knowledge and job skills, a program of adult education was introduced in August 1977. An official administrative body for adult education exists in all municipalities and counties. However, the Ministry of Education and Research has the highest administrative responsibility for adult education. Folk high schools are associated with a long Scandinavian tradition of public enlightenment. There are more than 80 folk schools in Norway geared toward providing personal growth and development rather than academic achievement.

In the latter part of the 1990s, approximately 15.8% of government expenditure was allocated to education. As of 1999, public expenditure on education was estimated at 7.7% of GDP.

## 44 LIBRARIES AND MUSEUMS

Norway's 1,108 public libraries had 20.5 million volumes in 1997. Oslo University Library (founded in 1811), Norway's principal research library, is also the national library; it has over two million volumes in its central library and total holdings of 4.7 million volumes, including those in institute libraries. Since 1882, copies of all Norwegian publications have had to be deposited in the national library; since 1939, copies have been deposited at Bergen and Trondheim as well. Bergen University Library has over one million volumes, largely devoted to the natural sciences. The library of the Scientific Society in Trondheim, founded in 1760, is the country's oldest research library and has over one million volumes, including 330,000 pictures and UNESCO and GATT (General Agreement on Tariffs and Trade) documents. The Tromsø Museum Library has been organized to make it the research library for the north. There are technical and specialized libraries at many research institutes and higher educational centers. State archives are kept in Oslo, and there are record offices for provincial archives at Oslo, Kristiansund, Stavanger, Bergen, Hamar, Trondheim, and Tromsø.

The first municipal libraries were founded in the late 18th century. By law every municipality and every school must maintain a library; each such library receives financial support from state and municipality. Regional libraries also have been created. A special library service is provided for ships in the merchant navy, and a floating library service provides books to fishermen-farmers living in the sparsely populated regions.

There are natural history museums in Oslo, Stavanger, Bergen, Trondheim, and Tromsø. Oslo, Lillehammer, and Bergen have notable art collections. A traveling "national gallery" was established in 1952. The most important museums in Norway are those dealing with antiquities and folklore, such as the Norwegian Folk Museum in Oslo. Oslo has a unique collection of ships from the Viking period. Open-air museums in Oslo and elsewhere show old farm and other buildings, as well as objects of Norwegian historical and cultural interest. Also in Oslo are the International Museum of Children's Art; the Munch Museum, displaying the works of Edvard Munch, Norway's most famous artist; Norway's Resistance Museum, detailing the country's occupation during World War II; and the Viking Ship Museum. Among Norway's newer museums are the Astrup Fearnley Fine Arts Museum (1993), which features Modern art; the National Museum of Contemporary Art (1990); and the Stenerson

Museum (1994), which exhibits paintings from the 19th and 20th centuries. All three museums are in Oslo.

On 12 February 1994, Edvard Munch's *The Scream* was stolen from the National Art Museum in Oslo. It was found undamaged in a hotel in May 1994.

## 45 MEDIA

Most of the telecommunications network is operated by the government-owned Televerket. The state owns all telephone facilities. In 1998, there were 2.7 million main line phones in use and 2 million mobile cellular phones.

All radio and television broadcasting is controlled by the Norwegian Broadcasting Corp., an autonomous public corporation. As of 1998 Norway had 5 AM and at least 650 FM radio broadcasting stations. Educational broadcasts supplement school facilities in remote districts. Radio license fees have not been required since 1977. Television programming on an experimental basis was initiated in 1958 and full-scale television transmission began in July 1960. As of 1995 there were 360 television stations. Most households have at least one television set; in 2000 there were about 915 radios and 669 television sets for every 1,000 people. The same year there were about 491 personal computers in use for every 1,000 people. About 13 Internet service providers served 2.45 million customers in 2001.

The Norwegian press is characterized by a large number of small newspapers. The following are the largest dailies with their circulations in 2002:

	ORIENTATION	CIRCULATION
OSLO		
<i>Verdens Gang</i>	Independent	484,100
<i>Aftenposten</i>	Independent	283,000
<i>Aftennummer</i>	NA	267,800
<i>Dagbladet</i>	Liberal	204,850
<i>Daens Naeringsliv</i>	NA	60,027
<i>Arbeiderbladet</i>	Labor	51,790
OTHER CITIES		
<i>De Fire Neste (Drammen)</i>	NA	442,000
<i>Bergens Tidende (Bergen)</i>	Independent	95,460
<i>Hedmark (Hamar)</i>	NA	91,100
<i>Adresseavisen (Trondheim)</i>	Conservative	88,800
<i>Stavanger Aftenblad (Stavanger)</i>	Independent	72,100
<i>Faedrelandsvennnen (Kristiansund)</i>	Independent	46,960
<i>Akershus (Lillestrom)</i>	NA	42,100
<i>Haugesunds Avis (Haugesund)</i>	NA	38,490
<i>Sunnmorsposten (Ålesund)</i>	Independent	37,900

The constitution provides for freedom of speech and of the press and the Government generally respects these rights.

## 46 ORGANIZATIONS

Cooperative societies are numerous and important in Norway. About 2,500 agricultural cooperatives are active; these include purchasing, processing, and marketing organizations. Some 528 retail cooperatives are affiliated with the Norwegian Cooperative Union and Wholesale Society.

The Norwegian Academy of Science and Letters, the Royal Norwegian Society of Science and Letters, the Norwegian Academy of Technological Sciences, and the Society for the Advancement of Science are leading learned society. Other learned and professional organizations include the Nobel Committee of the Storting, which awards the Nobel Peace Prize; the Norwegian Research Council for Science and the Humanities; and various legal, scientific, economic, literary, historical, musical, artistic, and research societies.

Doctors are organized in the Norwegian Medical Association and in local associations. Farming organizations and agricultural cooperatives are represented in the Federation of Agriculture. There are associations of small and large forest owners, fur breeders, and employers' organizations in most sectors of

industry, as well as a central Norwegian Employers' Confederation.

National youth organizations include the Norwegian Student Union, Christian Democratic Party Youth, En Verden Youth, European Democratic Students, European Good Templar Youth Federation, Federation of Young Conservatives, Norwegian Union of Social Democratic Youth, Norwegian YWCA/YMCA, and the Norwegian Guides and Scouts Association.

Health organizations include the Norwegian Red Cross, the Norwegian Women's Health Organization, and societies to combat a variety of conditions and diseases. International organizations with national chapters include Amnesty International and CARE Norge.

## 47 TOURISM, TRAVEL, AND RECREATION

Norway's main tourist attractions are the cities of Oslo, Bergen, and Trondheim, which are connected by road, rail, and daily flights; the marvelous scenery of the fjord country in the west; and the arctic coast with the North Cape and "midnight sun."

A favorite method of tourist travel is by coastal steamer, sailing from Bergen northward to Kirkenes, near the Soviet frontier. Many cruise ships ply the Norwegian fjords and coastal towns as far north as Spitsbergen. Notable outdoor recreational facilities include the Oslomarka, a 100,000 ha (247,000 acre) area located near Oslo, with ski trails and walking paths. To compensate for the shortness of winter days, several trails are illuminated for evening skiing. Other popular sports include ice skating, freshwater fishing, mountaineering, hunting (grouse, reindeer, and elk), and soccer. In 1994, Norway hosted the XVII Olympic Winter Games in Lillehammer.

There are major theaters in Oslo and Bergen, as well as six regional theaters; Den Norske Opera in Oslo; and four symphony orchestras. International musical events include the Bergen Festival, held annually in late May or early June; and several jazz festivals in July.

No passport is required of visitors from the Nordic area, but travelers arriving in Norway directly from non-Nordic countries are subject to passport control. A visa is not required for visits of less than three months.

In 2000, foreign visitors numbered 4.3 million and income from tourism totaled \$1.9 billion. There were 65,200 hotel rooms with 140,580 beds and a 38% occupancy rate that year.

In 2002 the US government estimated the daily cost of staying in Norway as being between \$199 and \$255.

## 48 FAMOUS NORWEGIANS

Ludvig Holberg (1684–1745), the father of Danish and Norwegian literature, was a leading dramatist whose comedies are still performed. Henrik Wergeland (1808–45), Norway's greatest poet, was also a patriot and social reformer; his sister Camilla Collett (1813–95), author of the first Norwegian realistic novel, was a pioneer in the movement for women's rights. Henrik Ibsen (1827–1906), founder of modern dramas, placed Norway in the forefront of world literature. Bjørnstjerne Bjørnson (1832–1910), poet, playwright, and novelist, received the Nobel Prize for literature in 1903. Other noted novelists are Jonas Lie (1833–1908); Alexander Kielland (1849–1906); Knut Hamsun (1859–1952), Nobel Prize winner in 1920; Sigrid Undset (1882–1949), awarded the Nobel Prize in 1928; and Johan Bojer (1872–1959).

Ole Bull (1810–80) was a world-famous violinist. Edvard Grieg (1843–1907) was the first Norwegian composer to win broad popularity. His leading contemporaries and successors were Johan Svendsen (1840–1911), Christian Sinding (1856–1941), Johan Halvorsen (1864–1935), and Fartein Valen (1887–1953). Kirsten Flagstad (1895–1962), world-renowned soprano, served for a time as director of the Norwegian State Opera. In painting, Harriet Backer (1845–1932), Christian Krohg (1852–1925), and Erik Werenskiöld (1855–1938) were outstanding in

the traditional manner; leading the way to newer styles was Edvard Munch (1863–1944), an outstanding expressionist, as well as Axel Revold (1887–1962) and Per Krohg (1889–1965). Norway's foremost sculptor is Gustav Vigeland (1869–1943); the Frogner Park in Oslo is the site of a vast collection of his work in bronze and granite.

Outstanding scientists are Christopher Hansteen (1784–1873), famous for his work in terrestrial magnetism; Niels Henrik Abel (1802–29), noted for his work on the theory of equations; Armauer (Gerhard Henrik) Hansen (1841–1912), discoverer of the leprosy bacillus; Vilhelm Bjerknes (1862–1951), who advanced the science of meteorology; Fridtjof Nansen (1861–1930), an oceanographer and Arctic explorer who won the Nobel Peace Prize in 1922 for organizing famine relief in Russia; Otto Sverdrup (1854–1930), Roald Amundsen (1872–1928), and Bernt Balchen (1899–1973), polar explorers; Johan Hjort (1869–1948), a specialist in deep-sea fishery research; Regnar Frisch (1895–1978), who shared the first Nobel Prize in Economic Science in 1969 for developing econometrics; Odd Hassel (1897–1981), co-winner of the 1969 Nobel Prize in chemistry for his studies of molecular structure; and Thor Heyerdahl (1914–2002), explorer and anthropologist.

The first secretary-general of the UN was a Norwegian, Trygve (Halvdan) Lie (1896–1968), who served from 1946 to 1953. The historian Christian Louis Lange (1869–1938) was co-winner of the Nobel Peace Prize in 1921.

Sonja Henie (1913–69) was the leading woman figure skater of her time, and Liv Ullmann (b.1939) is an internationally known actress. Grete Waitz (b.1953) is a champion long-distance runner.

## 49 DEPENDENCIES

### Svalbard

The Svalbard group includes all the islands between 10° and 35°E and 74° and 81°N: the archipelago of Spitsbergen, White Island (Kvitøya), King Charles' Land (Kong Karls Land), Hope Island, and Bear Island (Bjørnøya), which have a combined area of about 62,700 sq km (24,200 sq mi). The largest islands are Spitsbergen, about 39,400 sq km (15,200 sq mi); North-East Land (Nordaustlandet), 14,530 sq km (5,610 sq mi); Edge Island (Edgeøya), 5,030 sq km (1,940 sq mi); and Barents Island (Barentsøya), 1,330 sq km (510 sq mi). Svalbard's population totaled 2,868 in 2002, down from 3,181 at the end of 1991. The population is 55.4% Norwegian and 44.3% Russian and Ukrainian.

Discovered by Norwegians in the 12th century and rediscovered in 1596 by the Dutch navigator Willem Barents, Svalbard served in the 17th and 18th centuries as a base for British, Dutch, Danish, Norwegian, German, and other whalers, but no permanent sovereignty was established. Russian and Norwegian trappers wintered there, and coal mining started early in the 20th century. Norway's sovereignty was recognized by the League of Nations in 1920, and the territory was taken over officially by Norway in 1925. Much of the high land is ice-covered; glaciers descend to the sea, where they calve to produce icebergs. The west and south coasts have many fjords, while the western coastal lowland is up to 10 km (6 mi) broad. The most important mineral, coal, occurs in vast deposits in Spitsbergen. The west coast is kept clear of ice for six months of the year by the relatively warm water of the North Atlantic Drift, but an air temperature as low as  $-62^{\circ}\text{C}$  ( $-80^{\circ}\text{F}$ ) has been recorded. In this region there are 112 days without the sun's appearance above the horizon.

The chief official, a governor, lives at Longyearbyen; his administration is controlled by the Ministry of Industry. Coal mining is the main industry, with Norwegian-worked mines at Longyearbyen, Sveagruva, and Ny Ålesund and Russian worked mines at Barentsburg, Grumantbyen, and elsewhere. Russia has

extraterritorial rights in the areas where they mine. Cod fishing takes place around Bear Island, but whaling has virtually ceased. Norwegian sealers hunt seals, polar bears, and walrus in the summer. For centuries, trappers wintered in Spitsbergen to catch fox and bear while the pelts were in the best condition, but few trappers have wintered there in recent years.

Communications are maintained during the summer months by ships from Tromsø carrying goods and passengers, while colliers put in frequently at the mine piers. There are no roads and no local ship services.

### Jan Mayen

Located in the Norwegian Sea at 70°30' N and 8°30' W, 893 km (555 mi) from Tromsø, the island of Jan Mayen has an area of 380 sq km (about 150 sq mi). The island is dominated by the volcano Beerenberg, about 2,277 m (7,470 ft) high, which is responsible for its existence; a major eruption occurred in September 1970. Jan Mayen was discovered by Henry Hudson in 1607 and was visited in 1614 by the Dutch navigator Jay Mayen, who used it subsequently as a whaling base. In 1929, the island was placed under Norwegian sovereignty. It is the site of a meteorological station and an airfield.

### Bouvet Island

Bouvet Island (Bouvetøya), situated at 54°26' S and 3°24' E in the South Atlantic Ocean, was discovered in 1739, and in 1928 was placed under Norwegian sovereignty. An uninhabited volcanic island of about 59 sq km (23 sq mi), Bouvet is almost entirely covered by ice and is difficult to approach.

### Peter I Island

Peter I Island (Peter I Øy), an uninhabited Antarctic island of volcanic origin, is located at 68°48' S and 90°35' W. It has an area of 249 sq km (96 sq mi), rises to over 1,233 m (4,045 ft), and is almost entirely ice-covered. The island was discovered in 1821 by a Russian admiral. In 1931, it was placed under Norwegian sovereignty, and by a parliamentary act of 1933 became a dependency.

### Queen Maud Land

Queen Maud Land (Dronning Mauds Land) consists of the sector of Antarctica between 20°W and 45°E, adjoining the Falkland Islands on the W and the Australian Antarctic Dependency on the E. It was placed under Norwegian sovereignty in 1939, and has been a Norwegian dependency since 1957. The land is basically uninhabited, except for several stations operated by Japan, South Africa, and Russia.

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# POLAND

Republic of Poland  
*Rzeczpospolita Polska*

**CAPITAL:** Warsaw (Warszawa)

**FLAG:** The national flag consists of two horizontal stripes, the upper white and the lower red.

**ANTHEM:** *Jeszcze Polska nie zginela (Poland Is Not Yet Lost)*.

**MONETARY UNIT:** The zloty (Z) is a paper currency of 100 groszy. There are coins of 1, 2, 5, 10, 20, and 50 groszy and 1, 2, 5, 10, 20, 50, and 100 zlotys, and notes of 10, 20, 50, 100, 200, 500, 1,000, 2,000, and 5,000 zlotys. A currency reform on 1 January 1995 replaced 10,000 old zlotys with 1 new zloty. Z1 = \$0.2638 (or \$1 = z3.79) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Labor Day, 1 May; National Day, 3 May; Victory Day, 9 May; All Saints' Day, 1 November; Christmas, 25–26 December. Movable holidays are Easter Monday and Corpus Christi.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in eastern Europe, Poland has an area of 312,680 sq km (120,726 sq mi), extending 689 km (428 mi) E–W and 649 km (403 mi) N–S. It is bounded on the N by the Baltic Sea, on the N and E by Russia, Lithuania, Belarus, and Ukraine, on the S by Slovakia and the Czech Republic, and on the W by Germany, with a total land boundary of 2,788 km (1,794 mi) and a coastline of 491 km (305 mi). Comparatively, the area occupied by Poland is slightly smaller than the state of New Mexico.

Before World War II, Poland had encompassed a territory of nearly 390,000 sq km (150,600 sq mi). On 11 July 1920, an armistice mediated by Britain in a Polish-Soviet conflict established the “Curzon line” (named for George Nathaniel Curzon, the British statesman who proposed it), conferring the former Austrian territory of Galicia to the Soviet side. However, under the Treaty of Riga (1921), all of Galicia was assigned to Poland, and a boundary well to the east of the Curzon line prevailed until World War II. At the Yalta Conference in February 1945, the Allies accepted Soviet claims to eastern Poland, with a border running approximately along the Curzon line. On 21 April 1945, a Polish-Soviet treaty of friendship and cooperation was signed, followed by a new agreement on the Polish-Soviet border. To compensate for the loss of 46% of Poland's territory to the USSR, the Potsdam Conference of July–August 1945 placed former German territories east of the Oder (Odra) and western Neisse rivers under Polish administration, pending a final determination by a German peace treaty. On 6 August 1950, an agreement was signed between Poland and the GDR according to which both parties recognized the frontier on the Oder-Neisse line. The Federal Republic of Germany (FRG) recognized this boundary under the terms of a treaty signed with Poland on 7 December 1970 and ratified by the FRG on 23 May 1972.

Poland's capital city, Warsaw, is located in the east central part of the country.

## <sup>2</sup>TOPOGRAPHY

Poland's average altitude is 173 m (568 ft); 75.4% of the land is less than 200 m (656 ft) above sea level. The highest point, Mount Rysy (2,499 m/8,199 ft), is located in the Tatra Mountains on the Slovakian border. The principal topographic regions are an undulating central lowland with a crystalline platform and warped bedrock; the Baltic highland in the north, a glaciated region with many lakes and sandy soils; and the coastland, a narrow lowland with promontories, bays, and lakes. The southern uplands are marked by rich loam and mineral deposits.

Several important navigable rivers drain into the Baltic Sea, among them the Vistula (Wisla), the Oder, the Bug, and the Warta. There are over 6,000 lakes in the northern lake region. Good harbors have been developed on the Baltic Sea.

## <sup>3</sup>CLIMATE

Poland has a continental climate, conditioned especially by westerly winds. Only the southern areas are humid. Summers are cool, and winters range from moderately cold to cold. The average mean temperature is about 7°C (45°F); temperatures in Warsaw range, on average, from –6° to –1°C (21–30°F) in January and from 13° to 24°C (55–75°F) in July. Precipitation is greatest during the summer months, lasting 85 to 100 days. Annual rainfall ranges from about 50 cm (20 in) in the lowlands and 135 cm (53 in) in the mountains; the overall average is about 64 cm (25 in).

## <sup>4</sup>FLORA AND FAUNA

Coniferous trees, especially pine, account for 70% of the forests; deciduous species include birch, beech, and elm. Lynx, wildcat, European bison, moose, wild horse (tarpan), and wild goat are among the few remaining large mammals. Birds, fish, and insects are plentiful.

## 5 ENVIRONMENT

Poland's environmental situation has improved since the ouster of its communist regime, which has been accompanied by decreased emphasis on heavy industry and increased government awareness of environmental issues. However, Poland has yet to recover from the overexploitation of forests during World War II and the loss of about 1.6 million hectares (4 million acres) of forestland after the war. As of the mid-1990s, 75% of Poland's forests have been damaged by airborne contaminants and acid rain.

Pollution of the air, water, and land were the most significant environmental problem facing Poland in the 1990s. Air pollution results from hazardous concentrations of airborne dust and chemicals including carbon dioxide, nitrogen compounds, fluorine, formaldehyde, ammonia, lead, and cadmium. In 1992 Poland had the world's 12th highest level of industrial carbon dioxide emissions, which totaled 341.8 million metric tons, a per capita level of 8.9 metric tons. In 1996, the total rose to 356 million metric tons. Industry-related pollution affects particularly the Katowice region, where dust and sulfur dioxide emissions exceed acceptable levels. Water pollution in the Baltic Sea is 10 times higher than ocean water. Poland has 55 cu km of renewable water. Two percent is used to support farming and 64% is for industrial purposes. Poland's cities generate on average 5.7 million tons of solid waste per year. The nation's wildlife has also suffered from degeneration of its habitats. As of 2001, 9.1% of Poland's total land area was protected. Ten mammal species were endangered. Six bird species and one type of plant are also threatened with extinction. The cerambyx longicorn and rosalia longicorn are among the endangered species.

## 6 POPULATION

The population of Poland in 2003 was estimated by the United Nations at 38,587,000, which placed it as number 30 in population among the 193 nations of the world. In that year approximately 12% of the population was over 65 years of age, with another 19% of the population under 15 years of age. There were 94 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.08%, with the projected population for the year 2015 at 38,173,000. The population density in 2002 was 120 per sq km (310 per sq mi).

It was estimated by the Population Reference Bureau that 66% of the population lived in urban areas in 2001. The capital city, Warsaw, had a population of 2,260,000 in that year. Other large metropolitan areas were Katowice, 3,488,000; Łódź, 1,055,000; Gdansk, 893,000; and Cracow (Kraków), 857,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.7%.

## 7 MIGRATION

Large-scale emigration from Poland took place before World War II, with the heaviest exodus in the decades before World War I. Between 1871 and 1915, a total of 3,510,000 Poles, Polish Jews, and Ukrainians emigrated, about half of them to the United States. Emigration diminished greatly during the interwar period, when France became the chief country of destination. Between 1921 and 1938, some 1,400,000 Poles emigrated, while 700,000 returned. Poland suffered a net population loss of nearly 11,000,000 between 1939 and 1949 through war losses, deportations, voluntary emigrations, and population transfers arising out of territorial changes. An estimated 6,000,000 Germans left the present western territories of Poland when these territories came under Polish jurisdiction, and since the end of World War II more than 7,500,000 Poles have settled in the area. From the 1950s through the 1980s, Germans leaving for Germany constituted the bulk of emigrants; Jews also left in substantial numbers for Israel, both in the immediate postwar

years and during the 1950s and 1960s. Another emigration wave occurred after the imposition of martial law in December 1981.

Since 1989, Poland has been open to refugees. However, while tens of thousands of people transit Poland every year, the number of recognized refugees has been rather limited. As of 1999, there were 500 recognized refugees, including Bosnians who arrived in 1992. Since 1997, there has been a significant increase in the number of asylum applicants, from some 800 in 1995 to nearly 3,400 in 1998. Nonetheless, the great majority leave Poland before their cases are finalized. Main countries of origin include Sri Lanka, Afghanistan, Iraq, Somalia, and Armenia. In 2000, the net migration rate was -0.5 migrants per 1,000 population, amounting to a loss of approximately 20,000 people. In that year the total number of migrants was 2,088,000. The government views the migration levels as satisfactory.

## 8 ETHNIC GROUPS

Before World War II, over 30% of the people living within the boundaries of Poland were non-Poles. As a result of World War II, and of the boundary changes and population transfers that followed, Poland today is a predominantly homogeneous state with only about 2% of the population being non-Polish. According to the most recent estimates, Poles constitute 97.6% of the total population; Germans make up 1.3%; Ukrainians account for 0.6%; and Belarussians, 0.5%.

## 9 LANGUAGES

Polish is one of the western Slavic languages using the Latin alphabet and the only major Slavic language to preserve the old Slavic nasal vowels. It is easily distinguishable from other Slavic languages by the frequent accumulation of consonants. In addition to the letters of the English alphabet, it has the following letters and diphthongs: *a, ch, ci, cz, ź, dź, dzi, e, l, ń, ni, ó, rz, ś, si, sz, z, ź, ż, and zi*. It has no *q, v, or x*. Among the several dialects are Great Polish (spoken around Poznań), Kuyavian (around Inowrocław), Little Polish (around Cracow), Silesian (around Katowice and Wrocław), and Mazovian (around Warsaw and extending north and east). Some philologists consider that Kashubian, spoken along the Baltic, is not a Polish dialect but a separate language. Many Poles speak English, French, German, or Russian, and understand other Slavic languages in varying degrees.

## 10 RELIGIONS

Poland has been one of the world's most strongly Roman Catholic countries. During the period of Communist domination that began in 1945, that church suffered extensive repression by the state. A change in party leadership in October 1956, however, brought about a new relationship between church and state, which included voluntary religious instruction in schools and other guarantees to the Roman Catholic Church. In 1974, the Polish government established permanent working contacts with the Holy See. The position of the Church was further enhanced when the archbishop of Cracow, Karol Cardinal Wojtyła, became Pope John Paul II in 1978. Three visits by the pope to Poland, 2–10 June 1979, 16–23 June 1983, and 8–14 June 1987, testified to the strength of Polish Catholicism. In 1989, the church was finally granted legal status and control of its schools, hospitals, and its university in Lublin.

It is estimated that over 96% of Poles are nominally Roman Catholics. However, a 2001 poll indicates that only 58% of the entire population are active practitioners of their chosen faith. About 509,500 people are registered members of the Orthodox Church, 123,000 are Greek Catholics, 122,757 are Jehovah's Witnesses, and 87,300 are Lutherans (Augsburg). Other established Christian denominations include Old Catholic Mariavits, Polish-Catholics, Pentecostals, Seventh-Day Adventists, Baptists, Methodists, the Church of Christ, Reformed Lutherans,



LOCATION: 14°7' to 24°8' E; 49° to 54°50' N. BOUNDARY LENGTHS: Baltic coastline, 491 kilometers (304 miles); Russia, 432 kilometers (268 miles); Lithuania 91 kilometers (56 miles); Belarus, 605 kilometers (378 miles); and Ukraine, 428 kilometers (265 miles); Czech Republic, 658 kilometers (408 miles); Slovakia, 444 kilometers (275 miles); Germany, 456 kilometers (286 miles). TERRITORIAL SEA LIMIT: 12 miles.

and the New Apostolic Church. The Muslim Religious Union has about 5,123 members. About 5,043 people are Hare Krishnas.

On the eve of World War II, an estimated 3,351,000 Jews lived in Poland, more than in any other country; they constituted about 10% of the Polish population and nearly 20% of world Jewry. During the course of the Nazi occupation (1939–45), nearly 3,000,000 Polish Jews were killed, many of them in extermination camps such as Auschwitz (Oświęcim), near Cracow. Most of the survivors had fled to the USSR; at the end of the war, only about 55,000 Jews remained in Poland. Repatriation raised the total Jewish population to 250,000 in 1946. However, the establishment of the State of Israel in 1948, combined with a series of anti-Semitic outbreaks in Poland (including a government-led campaign in 1968–69), induced most Jews to emigrate. By 1998, Poland had only about 10,000 to 30,000 Jews living in the country.

## 11 TRANSPORTATION

In 2002, the operational rail network of Poland was 23,420 km (14,553 mi) in length, of which 11,626 km (7,224 mi) were

electrified. In terms of line length the Polish State Railways (PKP) is the third largest railway in Europe. However, equipment and service is far behind EU countries. In 2000 PKP began privatization of passenger, cargo and infrastructure.

There is a dense road and highway network. Improvement and repair have not kept up with the increased usage—an 800% increase in freight and an 1,800% increase in passenger transport between 1950 and 1970, and a 60% increase in freight traffic and a 70% increase in passenger transport during 1971–82. In 2001 out of a total of 381,046 km (236,782 mi) of roadways, 249,966 km (155,329 mi) were paved roads, including 269 km (166 mi) of expressways. In 2000, there were 9,991,260 passenger cars and 1,962,712 commercial vehicles.

As of 2002, Poland had 19 merchant ships, totaling 382,518 GRT. Before World War II, Polish merchant marine operations were mainly with the Western countries, especially the United States, but much of the current traffic is with Asian and African countries. The major ports are Szczecin, Gdynia, Gdańsk, and Swinoujście. The ports were badly damaged during World War II but have since been rehabilitated and enlarged. There are 3,812

km (2,369 mi) of navigable rivers and canals; the principal inland waterways are the Oder, with Szczecin near its mouth, the Wista, and the Warta.

In 2001, Poland had 122 airports, 83 with paved runways. Polish Air Transport (Polskie Linie Lotnicze-LOT), organized in 1922 and reorganized after World War II, is a state enterprise, with Warsaw's Okęcie International Airport as the center. In 2001, 2,670,300 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The land now known as Poland was sparsely populated in prehistoric times. Slavic tribes are believed to have begun settling Poland more than 2,000 years ago, but by AD 800, the population was probably no more than one million. Rulers of the Piast dynasty united the Polish tribes of the Vistula and Oder basins about the middle of the 10th century. In 966, Mieszko I, a member of this dynasty, was baptized, and consequently Poland became a Christian nation. Thirty-three years later, his eldest son and successor, Boleslaw I ("the Brave"; r.992–1025), secured recognition of Polish sovereignty from Holy Roman Emperor Otto III.

During the next three centuries, Poland was continually embroiled in conflicts with the Germans to the west and with the Eastern Slavs and the Mongol invaders to the east, while developing cultural relations with the Western civilizations. Foreign penetration and internal difficulties led to the division of Poland among members of the Piast dynasty. Under Casimir III ("the Great"; r.1333–70), the last of the Piast rulers, Poland was restored to unity and greatness. Casimir made peace with the Teutonic Knights, added Galicia to the realm, and welcomed Jewish refugees from the west; internally, law was codified, administration centralized, and a university was established at Cracow in 1364. In 1386, a Polish-Lithuanian federal union was created through a dynastic marriage, which also gave birth to the Jagellonian dynasty, named for Jagello, grand duke of Lithuania, who ruled Poland as Ladislas II (1386–1434). The union extended from the Baltic to the Black Sea and held control over other territories in Central Europe, notably West Prussia and Pomerania. The combined forces of the union annihilated the Teutonic Knights in 1410, in the Battle of Grunewald. In order to preserve the union during the reign of Sigismund II (1548–72), the last of the Jagellonians, provisions were made for an elective monarch to be chosen by a single parliament (Sejm) for Poland and Lithuania.

Although the 16th century marked the golden age of Polish literature and scholarship, its political reforms contributed to the nation's subsequent decline. The Polish gentry (*szlachta*) had progressively gained influence and power at the expense of the king. Meeting in the Sejm, the gentry adopted the legislative practice whereby a single dissenting voice was sufficient to prevent passage. The nobility imposed such far-reaching limitations upon the monarchy that national unity and integrity could not be maintained. Internal disorders, including the Cossack and peasant uprising (1648–49) led by Bogdan Chmielnicki against Polish domination of the Ukraine—a revolt that struck with particular ferocity against Polish Jews, many of whom had served as agents of the nobility in administering Ukrainian lands—further weakened the nation. In 1683, Polish and German troops led by John III Sobieski (r.1674–96) rescued Vienna from a Turkish siege, but in wars with Sweden, Russia, and other states, Poland fared poorly. A Russian, Prussian, and Austrian agreement led to the first partitioning of Poland in 1772; the second (1793) and third (1795) partitions led to the demise of Poland as a sovereign state. Galicia was ruled by Austria-Hungary, northwestern Poland by Prussia, and the Ukraine and eastern and central Poland by Russia, which extended its domains to include the Duchy of Warsaw,

reconstituted as the Kingdom of Poland (under Russian imperial rule) at the Congress of Vienna in 1815. The Poles rebelled in 1830 and 1863 against the tsarist rulers, but each insurrection was suppressed. However, the peasants were emancipated by Prussia in 1823, by Austria in 1849, and by Russia in 1864. Galicia, which won partial autonomy from Austria following the Habsburg monarchy's constitutional reforms, became the cultural center of the Poles.

With the Russian Revolution of 1917 and the defeat of the Central Powers in World War I, Poland regained its independence. On 18 November 1918, Józef Pilsudski, leader of the prewar anti-Russian independence movement, formed a civilian government. The Soviet army, meanwhile, began a westward advance that was met by a Polish counteroffensive. The conflict, in which Poland, seeking a return to its 1772 eastern border, was aided by France, ended with the Treaty of Riga in 1921, under which Galicia was restored to Poland.

Poland struggled through the next two decades plagued by economic deterioration and political instability, and by increasingly menacing pressures from its Soviet and German neighbors. Following the Nazi-Soviet Pact in 1939, Germany invaded Poland on 1 September, overrunning the country in eight days. Meanwhile, the USSR occupied the Lithuanian region on 17 September, although Poland had nonaggression treaties with both the USSR and Germany. By 1941, Nazi forces were brutally oppressing large segments of the Polish population while looting Poland's industrial sector and major resources—timber, coal, and wheat. Ghettos were set up in Warsaw and other cities for Jews, and numerous concentration camps were established on Polish territory, including the extermination camp at Auschwitz, where at least one million people perished between 1940 and 1944. Poland as a whole suffered tremendous losses in life and property during World War II. An estimated six million Poles were killed, half of them Jews; 2.5 million were deported for compulsory labor in Germany; more than 500,000 were permanently crippled; and the remaining population suffered virtual starvation throughout the Nazi occupation. Losses in property were evaluated at z258 billion (more than US\$50 billion).

The seeds of Poland's postwar political history were sown long before the war ended. A Polish government-in-exile was set up in France and later in the United Kingdom. Units of the Polish army fought with the Allies while in Poland underground groups, organized along political lines, maintained resistance activities. The *Armia Krajowa* (home army) was the major non-Communist resistance group. In July 1944, the Polish National Council, a Soviet-backed resistance group, set up the Polish Committee of National Liberation as a provisional government in liberated Lublin, declaring the émigré Polish government illegal. On 17 January 1945, Warsaw was liberated by the Soviet and Polish armies, and the provisional government moved to the capital. At Yalta, the Allies agreed to accept the Curzon line, thereby awarding the USSR nearly half of former Polish territory (including Galicia) in return for a Soviet agreement to broaden the political base of the provisional government with the addition of non-Communist Polish leaders. After subsequent negotiations, the Provisional Government of National Unity was formally recognized by the United States and United Kingdom in July 1945.

A bloc of four parties dominated by the Communists won the elections of January 1947. The Communists and the Socialists merged in December 1948 to form the Polish United Workers' Party (PZPR). The PZPR consistently followed a pro-Soviet policy. Domestically, the party pursued a reconstruction program stressing agriculture and industrial development. It shunned the Marshall Plan and, in its first two decades, renounced all dealings with the Western powers.

The first decade of Communist rule was dominated by tensions with the Roman Catholic Church and the question of Soviet



influence, as symbolized by Konstantin Rokossovsky, a Soviet general of Polish birth who became Poland's defense minister in 1949 and served as deputy prime minister from 1952 until his resignation four years later. Rising nationalist sentiment, heightened by stagnating economic conditions, led to worker riots in Poznań on 28–29 July 1956. In response to the unrest, a new Polish Politburo, headed by Władysław Gomułka (who had been purged from the PZPR in 1949 and subsequently imprisoned because of his nationalist leanings), introduced liberalizations, including the abolition of farm collectivization, and improved relations with the Church. By the late 1950s, however, the reform movement had been halted, and the government took a harder line against dissent. In 1968 there were student demonstrations against the government in the university centers; the Gomułka regime countered with a political offensive in which many government officials and party members accused of anti-Socialist or pro-Zionist sentiments were removed from office, and an estimated 12,000 Polish Jews left Poland.

Two years later, following a drought in 1969 and an exceptionally severe winter, demonstrations by shipyard workers in Gdansk broke out on 16 December 1970 protesting economic conditions, including the planned implementation of a new incentive system (threatening the existing system of bonuses and overtime pay) and an announced rise in food prices. After widespread violence, in which at least 44 people were killed, Edward Gierek, a member of the Politburo, succeeded Gomułka as first secretary on 20 December. Another strike began in Szczecin on 23 January 1971. The government then postponed the controversial incentive system and froze prices at their new levels. After receiving a substantial long-term Soviet grant (estimated at \$100 million), the Polish government rolled back prices to their pre-December 1970 levels, and labor peace was restored. In a move to bolster his support, Gierek reinstated Church control over thousands of religious properties in northwestern Poland to which the government had held title since 1945.

During the 1970s, Gierek's government vigorously pursued a policy of détente with the West. Three US presidents visited Poland and Gierek himself traveled to the United States and to several West European countries. Peace agreements governing the Oder-Neisse line and formally recognizing Polish sovereignty in former German territories were concluded with the FRG, and trade pacts were signed with the United States, United Kingdom, France, Italy, Austria, and other nations.

As Polish trade with the West increased, so did Poland's indebtedness to Western creditors. In 1976, the government announced food price increases but had to rescind them after the workers responded by striking. During the next several years, the economic situation kept deteriorating, and Polish nationalism—buoyed in 1978 by the election of the archbishop of Cracow to the papacy as John Paul II—continued to rise. In July 1980, new meat price increases were announced, and within a few weeks, well-organized workers all over Poland demanded a series of economic and political concessions. The center of labor activity was the Lenin Shipyard in Gdansk, where, in an historic public ceremony on 31 August, government officials agreed to allow workers the right to form independent trade unions and the right to strike. The independent labor movement Solidarity, headed by Lech Walesa, the leader of the Gdansk workers, emerged in early September and soon claimed a membership of about 10 million. That month, Stanisław Kania replaced Gierek as party first secretary.

For more than a year, the government and Solidarity leaders negotiated, with Catholic Church officials often acting as mediators. As Solidarity became more and more overtly political—demanding, for example, free parliamentary elections—Poland's Communist leaders came under increasing pressure from the USSR to stop the “anti-Socialist” and “anti-

Soviet” forces. On 18 October 1981, Gen. Wojciech Jaruzelski, prime minister since February, replaced Kania as PZPR first secretary. On 13 December, after union leaders in Gdansk called for a national referendum on forming a non-Communist government in Poland, Jaruzelski set up the Military Council for National Salvation and declared martial law. Almost the whole leadership of Solidarity, including Walesa, was arrested, and the union was suspended. Despite further strikes and rioting, which resulted in several deaths, the military had soon gained complete control. More than 10,000 people were arrested and detained for up to 12 months, and all rights and freedoms gained in the preceding year and a half were abolished. In January 1982, the United States imposed sanctions against Poland, including withdrawal of most-favored-nation status, veto of Poland's entry into the IMF, and suspension of fishing rights in US waters and of LOT flights to the United States. Protests and rioting continued sporadically into 1983, and some Solidarity leaders remained active underground, but these disturbances did not seriously threaten the military regime. On 22 July 1983, the government formally ended martial law and proclaimed an amnesty, but a series of legislative measures had meanwhile institutionalized many of the powers the government had exercised during the emergency, including the power to dissolve organizations, forbid public meetings, and run the universities.

The internal political situation stabilized to such a degree that in July 1984 the government proclaimed a general amnesty, and the United States began to lift its sanctions the following month (the last sanctions were lifted in early 1987). In October, however, an outspoken priest, Father Jerzy Popiełuszko, was kidnapped and subsequently murdered by two secret police officers. In an unprecedented step, the government, in February 1985, permitted a trial to take place; four security officers charged with complicity in the killing were convicted and sentenced (two to 25 years each, one to 15, and one to 14). Another amnesty was proclaimed in September 1986, leading to the release of all remaining political prisoners.

The efforts of the Jaruzelski government to restore order were largely successful on the political level, for Poland remained a comparatively tolerant and progressive Eastern Bloc nation. Economically, however, the country proved impervious to incremental change. Continued declines in standards of living led to waves of strikes throughout Poland in spring and fall 1988, essentially paralyzing the nation. Significantly, the demands of strikers, most led by Solidarity, began to become political as well as economic.

By November 1987 public antipathy had so grown that, hoping to avoid repetition of strikes caused by the necessity to raise prices, the government called for the first public referendum to be held in Poland for more than 40 years, which also was the first open election to be held within the Warsaw Pact. Although the ballot itself asked only for public support of an accelerated economic reform package, the people of Poland understood the referendum to be a vote of confidence in the government itself. The final tally was approximately two-thirds in support of the government, but because of a Solidarity-inspired voter boycott, just 67% of the eligible voters cast their ballots. By the rules of the election, this meant that the referendum had failed to pass, making this a first-ever defeat for the government.

In autumn 1988, the entire government resigned, making clear that talks with labor activists were unavoidable. The negotiations leading up to the so-called “round-table talks,” which finally opened in February 1989, were delicate and prolonged, as were the negotiations themselves. However, in April 1989 agreement was reached on a number of unprecedented concessions: Solidarity was recognized as a legal entity; the post of president was created, to be filled by legislative appointment; some antigovernment media were permitted legal operation; and the Catholic Church was given full legal status. Perhaps the most far-

reaching agreement, though, was to establish a senate, complementing the existing Sejm, with the seats to be filled by open election, in June 1989. In addition, 35% of the seats in the Sejm were also made subject to direct election.

The government made it as difficult as it could for opposition candidates to run: only two months were allowed in which candidates could gather the petitions necessary to get on the ballot, and the ballots themselves listed candidates alphabetically, with no indication of party affiliation. However, these attempts only served to make Solidarity's victory more resounding; 99 of the 100 seats in the Senate went to Solidarity members. Even more striking, many government candidates in the *Sejm* managed to even lose seats because voters crossed out the names of unopposed government candidates, thus denying them the necessary 50% of the total votes cast.

In June 1989, the newly elected parliament named General Wojciech Jaruzelski Poland's president by the slenderest of margins, 270 to 233, with 34 abstentions, making plain how dependent the Communists now were on Solidarity. Even so, the thought of a Solidarity-led government seemed impossible, even to many of the union's members. Thus the first prime minister under the new arrangement was General Czeslaw Kiszczak, named 2 August 1989.

However, impatience with the obviously discredited Communists was growing, feeding support for a formula advanced by senior Solidarity activist Adam Michnik, "Your President, Our Prime Minister." After a mere 15 days in office, General Kiszczak succumbed to this pressure and resigned.

Although it was widely expected that Lech Walesa might lead the first Solidarity government, he demurred, instead putting forward Tadeusz Mazowiecki, who took office on 24 August 1989, the first non-Communist prime minister in the eastern bloc.

The wave of "velvet revolutions" across Eastern Europe that autumn accelerated the de-Sovietization of Polish government. Freely contested local elections were held in May 1990, further weakening the Communists' grip on power.

Although Jaruzelski had been elected to a six-year term as president, Walesa made it known in early 1990 that he was now prepared to stand for president in open elections. Jaruzelski resigned in September 1990, opening the way for new elections.

Although there were six major candidates, across a political spectrum from ultranationalist to ex-communist, the race was widely assumed to be between Walesa and Mazowiecki, each of whom offered variations on a Solidarity presidency. Ironically, the movement's victory over Communism had also exposed dissension, which had lain dormant during the years of struggle, now fracturing the movement into several rival factions.

The results of the 25 November preliminary election were a major political shock. Although the leader, Walesa had managed to get only 40% of the vote, second place was taken by Stanislaw Tyminski, a mysterious expatriate with a shadowy past, who took 23% of the popular vote. Mazowiecki received only 18%, provoking widespread fears of ill-defined but professionally managed conspiracies to stop the advance of Polish democracy.

However, in the runoff with Walesa, held 9 December 1990, Tyminski received just under 25% of the vote. Although the Canadian expatriate made some attempts to consolidate his popularity in a party, by the parliamentary elections of 1993 Tyminski's popularity had so diminished that his Party X received less than 3% of the vote.

After 1990, the success of Poland's "revolution," combined with economic dislocations caused by the country's rapid transition to a market economy, also demonstrated some of the drawbacks of ongoing democratization. The number of political parties ballooned, diluting the impact that any one party or group of parties was able to have, making it difficult to undertake such complex and contentious issues as large-scale privatization, economic rationalization of Soviet-era giant industry, and

fundamental constitutional revision. The October 1991 election saw 69 parties competing, with 29 actually winning seats, none of them with more than 14% of the vote. Inevitably this resulted in coalition governments without clear mandates, giving Poland five prime ministers and four governments in 1991-93. Even so, the parliament enacted important legislation in that period, including the "Little Constitution" of 17 October 1992, which in the absence of a complete constitution provides much of the necessary framework for a democratic society.

This proliferation of parties reflected disparities among the electorate that emerged once the communists had been removed as a unifying focus for opposition. In addition to tensions between the clear winners and losers which economic transformation were producing, splits also became more apparent between the 40% of Poland which is rural, and thus desirous of continued protection for small-plot agriculture, and the 60% which is urban, and wishing to open Poland to European imports and influence. Also important were growing tensions between secular intellectuals and the powerful Catholic Church, which moved to assert close control on social issues like abortion, school curriculum, and women's role in society.

These issues, exacerbated by continued economic strains and growing uncertainty about the course of post-Communist Russia, contributed to the unexpected return to power of many ex-Communists in the September 1993 parliamentary elections. In that election the number of parties had dropped to 35, of which only five, plus a coalition, received seats. However the two most popular parties, the Polish Peasant Party (15.4%) and the Democratic Left Alliance (20.4%), were made up largely of ex-Communists or other figures from the governments of the past. Their influence was further amplified by voting rules which assigned the cumulative votes for parties which failed to reach the necessary thresholds for gaining seats to winning parties, thus giving the two "ex-Communist" parties a comfortable two-thirds majority.

This apparent rejection of the gains of Solidarity and the democrats was variously interpreted as a rejection of "shock-therapy" economic transformation, as the electorate's nostalgia for the more ordered life of the past, and as a vote against the Catholic Church, or at least its social agenda, the power of which had grown under Solidarity and its progeny. Another factor frequently mentioned was the greater professionalism of the ex-Communists, who ran much more effective campaigns than did most of their opponents. Finally, Walesa and his supporters were also seen to be suffering because they are now the responsible authorities and hence provide the same target for opposition which they once found in the Communists.

However, local elections held 19 June 1994 suggest that fears of some return to Communism under the new government have proven unfounded. Voters demonstrated the ability to select representatives who would serve their own interests, returning about 20% of the incumbents to local office and selecting other officials from across a broad political spectrum. The Democratic Left Alliance and Polish Peasant Party retained their dominance, but centrist and right-of-center parties also did well. This suggests that, although they differ from their predecessors on the pace of Poland's economic transformation, the government of Polish Peasant Party leader Waldemar Pawlak, and his Democratic Left Alliance partner, Aleksander Kwasniewski (also head of the Constitutional Commission), remained generally committed to Poland's course of democratization and economic transition. The Constitution Commission proposed a new constitution that passed the National Assembly in April 1997, and was approved in a national referendum on 23 May 1997.

Aleksander Kwasniewski was elected president to a five-year term on 23 December 1995 with 51.7% of the popular vote, to Lech Walesa's 48.3%. In 1997, NATO invited Poland, along with

the Czech Republic and Hungary, to join the alliance; the three countries became members in March 1999.

Presidential elections held on 9 October 2000 returned Kwasniewski to office; he received 53.9% of the vote on the first ballot to non-party candidate Andrzej Olechowski's 17.3% and Solidarity chairman Marian Krzaklewski's 15.6%. Walesa received only 0.8% of the vote. Extreme right-wing candidates did not fare well, including Andrzej Lepper of the farmers' trade union *Samoobrona* (Self-Defense of the Polish Republic), although the party gained 53 seats in the Sejm in 2001. Parliamentary elections were held on 23 September 2001, and Prime Minister Jerzy Buzek's center-right coalition Solidarity Electoral Action of the Right (AWSP) lost to Leszek Miller's Democratic Left Alliance (SLD) in coalition with the Labor Union (UP), a minor left-wing party. Miller's coalition gained a majority in parliament with the addition of the agrarian Polish People's Party's seats, to hold 258 of 460 seats in the Sejm.

At a summit held in Copenhagen on 12–13 December 2002, the EU formally invited Poland to join the body in 2004. In April 2003, Prime Minister Miller called for early parliamentary elections, to be held simultaneously with elections to the EU parliament in June 2004, or a year ahead of schedule. Poland was to vote on EU accession in June 2003, and surveys show popular resentment against the terms of entry imposed by the EU. In March 2003, the Polish People's Party was ejected from Miller's coalition over its failure to vote with the government on a tax proposal. Miller remained head of a minority government. As of early 2003, high unemployment and low growth in the context of the global economic downturn were a hindrance to governmental economic reform, but Miller's government has focused its efforts on reducing spending, easing conditions for business, reforming labor law, and investing in infrastructure, among other measures.

### 13 GOVERNMENT

Until 1997, the form of government in Poland was in the midst of a protracted transformation, which left a number of its important features unclear. Without a formal constitution, Poland had been functioning on a much-amended form of its Communist-era constitution. The most important modifications were the Jaruzelski government's concessions of April 1989, which created both the Senate and the office of president, and a package of amendments passed in October 1992, which are collectively called the "Little Constitution." Another important modification was the agreement of 1990, which made the presidency a popularly elected post, rather than one of parliamentary appointment.

The system was a difficult marriage of a presidential and a parliamentary system. The president is directly elected, for a term of five years. The post has traditional executive obligations and powers, such as the duty to sign into law or veto legislations, but also retained substantial legislative powers, including the right to introduce bills and draft legal amendments. The president asserted the right to select the prime minister and other key ministers, such as finance and defense, from among candidates put forward by the ruling coalition or party; that right, however, was disputed by the Pawlak government, which saw the president's role as consultative.

During his tenure, Lech Walesa fought to widen the powers of the presidency, arguing that, at least during the transition period, Poland required a strong president who was able to resolve impasses and disputes on the basis of "practical experience," rather than on points of legal niceties. For the most part, though, this fight was in vain. His successor, Aleksander Kwasniewski, succeeded in putting forth a new constitution in 1997.

The parliament consists of two houses, the Sejm, or lower house, with 460 seats, and the Senate, with 100 seats. The members of both houses serve four-year terms. Seats are filled on the basis of party lists; there is a minimum national vote

threshold of 5% for parties, or 8% for coalitions, with the votes for parties which fail to reach those minimums assigned to victorious parties. In the 1993 election, this magnified the gains of the Democratic Left Alliance (SLD) and Polish Peasant Party (PSL), giving them a total of 303 seats in the Sejm and 73 seats in the Senate. Following the 1997 elections, Jerzy Buzek's Solidarity Electoral Action Social Movement (AWSP) won 201 seats in the Sejm, and he formed a coalition government. In the 2001 elections, the SLD under Leszek Miller won the greatest number of seats in parliament, and Miller became prime minister of a leftist-agrarian coalition.

The prime minister proposes, the president appoints, and the Sejm approves the Council of Ministers or cabinet. The president, who is elected by popular vote for a five-year term, appoints the prime minister with confirmation by the Sejm.

### 14 POLITICAL PARTIES

After the political poverty of its Communist past, Poland exploded in a rich exuberance of political parties, which ranged across the full political spectrum, from the rabidly xenophobic nationalism of the Polish National Front (whose leader, Janusz Bryczkowski, invited Russian extremist Vladimir Zhirinovskiy to Poland in 1994) to the socialist party, Union of Labor (UP). In between, or sometimes even taking positions not to be found on ordinary political spectra, were special interest and even quirky parties, of which the best example may be the Polish Beerdrinkers' Party. A full 69 parties participated in the 1991 parliamentary elections, of which 29 gained seats, none of them with more than 14% of the total vote.

By 1993, however, the political scene was showing signs of stabilizing. Only 35 parties took part in that election; perhaps more significantly, only five received seats, as did members of a coalition of parties. That election, distorted in part by laws assigning the votes of unsuccessful parties to more successful ones, seemed to indicate a strong shift toward the left.

The local elections of 1994, however, indicated that Poland was coalescing into three basic political orientations, which are served by shifting coalitions of parties. On the right in that election were two large coalitions: the Alliance for Poland, which included the Christian National Union, the Center Alliance, the Movement for the Republic, Peasant Alliance, and the Conservative Coalition; and the 11 November Agreement, which included the Conservative Party, the Party of Christian Democrats, the Christian-Peasant Alliance, and the Real Politics Union (a radical *laissez-faire* party). These parties generally favored a major role for the Catholic Church, and tended to draw their support from Poland's rural sectors; in 1994, they did best in the eastern districts. In general, though, public support for the right, especially the religious right, appears to be limited.

The center was dominated by Freedom Union (UW), which was formed in April 1994, when the Liberal Democratic Congress merged with the Democratic Union. The centrist position derives largely from the intellectual wing of the original Solidarity, favoring radical economic transformation, while being less concerned with immediate impact upon workers. UW draws much of its support from smaller cities, especially university ones, such as Cracow.

The left, which was almost entirely discredited in 1991, has shown remarkable resilience. Through the 1990s, the two major parties were the Democratic Left Alliance (SLD), which incorporates the Social Democracy of Republic of Poland party (SDRP), the formal inheritor of the Communist party, and the Communist-era trade union federation (OPZZ), and the Polish Peasant Party (PSL), which is the descendent of the Communist party's old ruling partner, the United Peasant Party (ZSL). By 2000, Solidarity Electoral Action Social Movement (AWS), a post-Solidarity party, led the governing coalition.

In the 1997 parliamentary election, AWS won 201 and SLD got 164 seats, with UW winning 60 and PSL 27. SLD has its support in Warsaw and the other large industrial cities, especially Lodz (long known as “red Lodz”).

In the 2001 parliamentary election, the SLD/UP coalition took the most seats in the Sejm with 216; they formed a government with the PSL's 42 seats. Also gaining seats in the Sejm were: the centrist Citizen's Platform, 65; the conservative Self-Defense of the Polish Republic, 53; the anti-corruption Law and Justice Party, 44; and the Christian-nationalist League of Polish Families, 38. Two members of the German minority also held seats in the Sejm. The AWSP, taking only 5.6% of the vote, held no seats in parliament.

In the 1995 presidential elections, Aleksander Kwasniewski of SLD beat Lech Walesa by a small margin (51.7% to 48.3%) to become president for a five-year term. He was reelected in 2000 with 53.9% of the vote, and, in a striking reversal, Walesa finished seventh with 0.8% of the vote.

## 15 LOCAL GOVERNMENT

Poland had been divided into 49 administrative districts, or *voivods*, which were the basic administrative units under the Communists. One of the innovations of the 1989 Solidarity government was to replace that system with one in which the basic unit was the *gmina*, or local authority, which owned property and had responsibility for its own budget. The *gmina* elected a council, which appointed the executive officials actually responsible for day-to-day administration of the locality.

In 1994, there were 2,383 such local councils, to which the law provided a mixed system of election. In districts containing more than 40,000 people, of which there were 110 in 1994, council representation was proportionally determined, based upon party affiliation. In the smaller districts council representatives were elected by direct majority vote.

Originally these *gmina* councils were similar in makeup to the Solidarity Citizens Committees, from which they descended. Increasingly, however, the councils differentiated themselves, some becoming controlled by national parties, while others remained dominated by personalities, who responded primarily to local issues.

Changes in local government structure were introduced in 1999, transforming Poland's 49 provinces into 16 new ones. A three-tier division of government was established: municipalities/communes, 308 counties (*powiaty*), and 16 provinces (*województwa*). Each of these divisions is governed by a council. Council members are directly elected, and appoint and dismiss the heads of the municipalities/communes (*wojt*), the town mayors, the *starosta* or head of the county, and the speaker of the provincial councils.

## 16 JUDICIAL SYSTEM

There is a four-tiered court system in Poland: regional, provincial, appellate divisions, and a Supreme Court. The Supreme Court, the highest judicial organ, functions primarily as a court of appeal. The Supreme Court and lower courts are divided into criminal, civil, military, labor and family chambers. Judges are nominated by the National Judicial Council and are appointed by the president for life.

As of October 1999 there is a Constitutional Tribunal, which offers opinions on legislation and exercises authority of judicial review. Constitutional Tribunal judges are appointed to nine-year terms by the Sejm.

Defendants enjoy a presumption of innocence and have the right to appeal. Although the judiciary is independent, it suffers from inefficiency, lack of resources and lack of public confidence.

## 17 ARMED FORCES

Polish armed forces numbered 163,000 in 2002, with reservists numbering 234,000. Army personnel numbered 104,050 equipped with over 1,000 main battle tanks. Navy personnel totaled 14,300 including 2,000 naval aviators. Equipment included four submarines, one destroyer, three frigates and 23 smaller combatants. The naval aviation wing was supplied with 26 combat aircraft and 12 armed helicopters. The air force had 36,450 personnel and 201 combat aircraft. Paramilitary consisted of 14,100 border guards and 7,300 police. Poland provided troops and observers to 11 different UN peacekeeping missions. Defense expenditures for 2002 amounted to \$3.5 billion, or 1.7% of GDP.

## 18 INTERNATIONAL COOPERATION

Poland is a charter member of the UN, having signed on 24 October 1945. It participates in ECE and all the non-regional specialized agencies except IFAD. Poland became a member of IBRD and IMF in 1986. It was admitted to NATO on 12 March 1999. Poland belongs to the WTO, and is a signatory to the Law of the Sea. Poland was among the first Eastern European countries invited to hold talks on EU membership in 1997. It was formally invited to join that body in December 2002, with accession planned for 2004.

## 19 ECONOMY

Until recently, Poland had a centrally planned economy that was primarily state controlled. Agriculture, however, was only partly socialized, with state farms and cooperatives accounting for 23% of the country's total farmland in 1984. Since World War II, agriculture's predominance in the economy has been waning; in 1990, it accounted for 16.2% of the NMP, compared to 22.7% in 1970. In 2000, its contribution to GDP was an estimated 4%, although it continued to employ about 28% of the labor force. Poland, with its sizable coastline, has become a maritime nation of some note, having developed three major ports on the Baltic and a greatly expanded shipbuilding industry, which in 1991 produced 53 ships. In 2003, yearly production was reported as 50 ships, about one-tenth the number of ships produced by South Korea and Japan, the industry leaders. In June 2002 the Szczecin Shipyards, considered an example of successful privatization declared bankruptcy. Although Poland has rich coal deposits, it lacks important natural resources, such as petroleum and iron ore, and must export in order to pay for the raw materials it needs.

During 1971–75, Poland's NMP increased by about 12.8% annually; the growth was, to a substantial degree, the result of credits from the West. After 1975, however, Poland's economic performance deteriorated because of excessive investments, internal market problems, several bad harvests, the worldwide recession, and the political upheaval of 1980–81. An economic growth rate of 2.5% annually during 1976–78 was followed by declines of 2% in 1979, 4% in 1980, 12% in 1981, and 5.5% in 1982, while the debt to Western governments reached nearly \$25 billion by 1983, rising to \$33 billion in 1991, when the total hard-currency debt reached \$52.5 billion. During 1980–91, the GNP grew at an annual average rate of only 1.2%. Inflation averaged 54.3% annually in the 1980s.

With Poland subjected to the “shock therapy” of a transition to a market economy, GDP fell 31.5% between 1990–92 and consumer prices shot up almost sixfold. However, the economy did not stay down long as Poland's economy became one of the most robust in Eastern and Central Europe thanks to the government's tight fiscal and monetary policies. The economy grew by just under 7% in 1995, and by 5.5% in 1996 and 1997, for an average of over 5% a year 1994 to 1997. Most of the growth since 1991 came from the booming private sector, by

1997 for about 70% of GDP (up from 50% in 1992), due in large part to the creation of new private firms. Poland's pace of growth has declined since 1998, as the economy has been buffeted by the effects of the Russian financial crisis and then the global economic slowdown since 2001. In 1998, growth fell to 4.8%; in 1999, 4.1%; in 2000, to 4%; and in 2001, to 1%. Estimates for 2002 are for real GDP growth of 1.2% to 1.3%. Inflation shot up to 10.1% in 2000 with the recovery of oil prices, but in 2001 had moderated to 5.5%. Inflation is estimated at about 2% for 2002. About 72% of the economy had been privatized by 2002, and the government announced its intention to reduce increase this share to 85% to 90% by 2005. The major problems facing the economy are unemployment—which after decreasing for several years increased to 13% in 1999, to 15% in 2000 to 16% in 2001 to 17% in 2002—and persistently high fiscal deficits. On 7 June 2003, 75% in a vote with a 57.34% turnout (above the 50% minimum turnout required) voted “yes” to the referendum of Poland's joining the EU. Poland should become a member of the EU in 2004, although economists estimate that it will take decades for per capita average income in Poland to reach the EU average. Per capita income was about \$4,800 in 2002 (\$9,500 in purchasing power parity terms.)

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Poland's gross domestic product (GDP) was estimated at \$368.1 billion. The per capita GDP was estimated at \$9,500. The annual growth rate of GDP was estimated at 1.2%. The average inflation rate in 2002 was 2.5%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. Agriculture accounted for and estimated 4% of GDP, industry 35%, and services 61%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$639 million or about \$17 per capita and accounted for approximately 0.4% of GDP. Worker remittances in 2001 totaled \$938 million. Foreign aid receipts amounted to about \$25 per capita and accounted for approximately 1% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$2,353. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 2%. Approximately 28% of household consumption was spent on food, 19% on fuel, 6% on health care, and 1% on education. The richest 10% of the population accounted for approximately 24.7% of household consumption and the poorest 10% approximately 3.2%. It was estimated that in 2000 about 18% of the population had incomes below the poverty line.

## 21 LABOR

The labor force in 2001 totaled 17.6 million persons, with 28% of the workers engaged in agriculture, 22% in industry, and 50% in the service sectors. In 2002, the estimated unemployment rate was 17%, with considerable underemployment as well.

The Trade Union Act of 1949 consolidated the existing unions into the Central Council of Labor Unions. Under labor legislation enacted during the first three decades of Communist rule, collective agreements were concluded yearly on such matters as production norms, socialist competition, and labor discipline, but wages, hours, pensions, sick leave, and vacations were established by law. After 1956, arbitration commissions, elected by workers' councils, were entrusted with the settling of labor disputes. Also established in 1956 were labor inspectors, attached to the

provincial councils of the unions, to check for violations of labor laws by management.

A pivotal chapter in Polish labor history began in August 1980, when, after a series of strikes in Gdansk and elsewhere (including Silesia, where most of the coal mines were closed), the government authorized the formation of independent labor unions. On 5 September, a new national labor movement, called Solidarity, was born. Solidarity achieved legal status in October 1980—but only on condition that it recognize the “leading role” of the PZPR—and within a short time claimed a membership of almost 10 million. The goals of Solidarity included a five-day workweek, worker self-management, an easing of censorship, and other economic and political reforms. In May 1981, Rural Solidarity, a labor union of independent farmers, won legal recognition. At the first national congress of Solidarity, held in September and October 1981, Lech Walesa was elected national chairman. Walesa and other Solidarity leaders were detained in December 1981, when martial law was imposed. All existing labor organizations were outlawed on 8 October 1982. New unions, authorized at that time and formally constituted in January 1983, were to be confined to individual factories or workplaces and, although theoretically independent, were in fact closely supervised by the government. The rights to strike and to leave one's job were severely limited, and national coordination of individual unions was prohibited. In February 1986, the government issued a decree permitting an extension of the workweek to 46 hours (six days), thus rescinding one of the few remaining concessions won by Solidarity. In 1988, strikes resumed, as a protest to the government's attempt to eliminate food subsidies. The Solidarity movement was permitted to resume at the demand of the workers. The government then resigned, and Solidarity earnestly participated in the negotiations with the interim Council of Ministers on economic and constitutional reforms. In 1989, Solidarity was legalized once again. Unions have the right to strike and bargain collectively, although union officials report that workers in the private sector are encouraged not to join unions by their employers and workers organizing unions often face discrimination. In 2000 the official number of unions was 360, with members representing only 7% of the workforce.

The labor code prohibits employment for children under the age of 15. There are strict rules governing the work standards for those between 15 and 18 years old, however these are not regularly enforced. The minimum wage in state-owned enterprises was \$180 per month in 2002, although large number of workers earn less than the minimum wage. The legal standard workweek is 42 hours with one 24-hour rest period. The labor code defines occupational safety and health standards but they are not consistently enforced.

## 22 AGRICULTURE

In 2001, agriculture engaged 28% of the Polish labor force (as compared with 53.5% in 1948 and 39.9% in 1967). About 62% of Poland's land is agricultural; of this area, 78% is cultivated. Overall agricultural output during 1980–90 fell by nearly 0.4% annually. Between 1990 and 2000, agricultural production dropped by 0.2% annually. In 2001, agriculture accounted for 4% of GDP, down from 14.5% in 1985.

The transition from an agricultural economy is due partly to territorial changes resulting from World War II (1939–45); largely agricultural areas were transferred to the USSR, whereas the areas acquired in the west were predominantly industrial. During the war, approximately one-third of the Polish farms were completely or partly laid waste, and five-sixths of the hogs and two-thirds of the cattle and sheep were destroyed, leaving farmers almost without draft animals and fertilizer. At the same time, population transfers delayed cultivation in the areas of resettlement.

Land redistribution followed both world wars but was much more extensive after World War II. A 1944 decree expropriated all holdings larger than 100 ha (247 acres); land belonging to Germans or collaborators was also expropriated. Attempts at collectivization were generally resisted; after 1956, most collective farms were disbanded and their land redistributed. During the 1990s, about 3.7 million Poles were engaged in small plot farming (with an average farm size of 6 ha/15 acres) on 2.1 million private farms, which produced about 75% of agricultural output.

In 1999, principal crops and their estimated yields (in thousands of tons) were potatoes, 19,927; sugar beets, 12,554; wheat, 9,051; rye, 5,181; barley, 3,401; and oats, 1,446. Yields have been poor because of infertile soil, insufficient use of fertilizers, and inadequate mechanization, in addition to the drought. There were 1,310,500 tractors in 1997, up from 620,724 during 1979–81. Although grain production has been Poland's traditional agricultural pursuit, since World War II, Poland has become an importer—instead of an exporter—of grains, particularly wheat.

Poland grows an assortment of fruits and vegetables. Fruit and berry yields (in thousands of tons) for 1999 included: apples, 1,604; currants, 153; strawberries, 178; raspberries, 43; plums, 91; and pears, 67. Field vegetable production in 1999 (in thousands of tons) included: cabbage, 1,709, carrots, 906; onions, 688; cucumbers, 400; cauliflower, 225; and tomatoes, 333.

### 23 ANIMAL HUSBANDRY

Pastures cover about 5% of the total land area, according to Poland's 1995 agricultural census. The government has encouraged the development of livestock production through increased fodder supply and improvement in breeding stock and partial tax relief for hog raising. Emphasis has been placed on the raising of hogs and sheep. In 2001, there were 17.1 million pigs, 5,734,000 head of cattle, and 343,000 sheep. In 2001 there were an estimated 48.2 million chickens, 3.5 million ducks, and 802,000 turkeys.

Estimated livestock production in 2001 included (in thousands of tons): pork, 1,849; beef and veal, 316; poultry, 741; mutton, 1; and milk, 11,800. Butter production in 2001 was 178,900 tons; cheese, 510,000; and honey, 9,500.

### 24 FISHING

Most of the fishing industry has been brought under state ownership. Sea fishing is conducted in the Baltic and North seas and in the Atlantic (Labrador, Newfoundland, and African waters), and there are inland fisheries in lakes, ponds, and rivers. The 2000 saltwater catch was 200,811 tons, predominantly pollock; freshwater fishing yielded about 17,543 tons. Exports of fish products amounted to \$242.7 million in 2000.

### 25 FORESTRY

As of 2000, 30% of Poland's land was forested. Pine, larch, spruce, and fir are the most important varieties of trees. Polish forests are subject to difficult growing conditions such as wide temperature fluctuations in winter, hurricane strength winds, and unusually high temperatures in summer. Most Polish forests grow on highly degraded sandy soils that hold little moisture. Moreover, much of Poland suffered from drought during the 1990s. Almost 50% of forests are young trees; only 17% of the stand can be cut. The Wielkopolski National Forest, a reservation in Rogalin, is famous for its thousand-year-old oak trees.

Despite the adversity, the forest products industry was one of the most rapidly growing sectors of the Polish economy in the 1990s. Since 1992, output of value-added products has doubled, excluding sawn timber. Wood processing occurs in the Biala Podlaska region, while large areas of forest in the Zamosc region

foster development in the furniture industry. In 2001, exports of furniture were valued at \$2.4 billion (mainly to Germany), making it a leading export commodity. In 2001, over 80% of furniture production was exported, compared to 17% in 1989. The timber cut in 2001 was estimated at 23.5 million cu m (8.3 million cu ft) of roundwood. The annual harvest of roundwood is typically around 20 million cu m (706 million cu ft), equivalent to 65–70% of annual growth. Poland was once an exporter of timber, but given the booming construction of private homes, domestic production does not meet local demand. In 2000, imports of roundwood reached 365,000 cu m (12.8 million cu ft).

The government has been attempting to offset losses from territorial redistribution and wartime destruction by afforestation. During 1990–2000, the forested area increased in size by an annual average of 18,000 ha (44,500 acres) per year. Although land is being returned to forests, industrial pollution and pests are still causing deterioration.

### 26 MINING

Poland ranked third globally in mined zinc, sixth in silver, seventh in coal and sulfur (a major export commodity), among the top ten in mine copper (3% of world output, and second in Europe and Central Eurasia), and was a leading producer in Central Eurasia and Europe of lead, lime, nitrogen, and salt. Poland had 9% of world sulfur reserves, 6% of world copper ore reserves, and had significant resources of bituminous coal, salt, silver, and lead and zinc ores. The production of iron and steel comprised Poland's second-leading industry in 2002, and coal mining ranked third. The mining and quarrying sector, which included mineral fuels and processing, accounted for 6% of GDP, which grew by 4% in 2000. Total sales by the mining and quarrying sector (excluding coal mining) contracted by 1.5% in the year. The base-metals-producing sector registered a 10% increase in sales, while those of the industrial minerals sector rose by 7%.

Mine output of metals in 2000 included: zinc, 170,000 tons, down from 185,689 in 1999; silver, 1,144 tons; copper (metal content of ore and concentrate), 990,000 tons; and lead (metal content of various ores), 155,000 tons, down from 185,207 in 1999. All copper ore was mined by KGHM S.A., in the Lubin area; the government's share in KGHM's stock was 52%. Total copper reserves were 2,300 million tons containing 44 million tons of metal. Lead and zinc resources totaled 184 million tons; limestone and marl, 17,450 million tons; and gravel aggregates, 14,600 million tons. No gold was mined in 2000. Important industrial minerals produced in 2000 included hydraulic cement (14.8 million tons), glass sand (1.4 million tons), and sulfur (native [Frasch]), byproduct, and from gypsum), 3.46 million tons. Also produced in 2000 were antimony, cobalt, germanium, nickel, selenium, anhydrite, diatomite, feldspar, fuller's earth, fire clay, kaolin, gypsum, magnesite ore, nitrogen, foundry sand, filing sand, lime sand, quartz, quartz crystal, sodium compounds, dolomite, limestone, crushed stone, and dimension stone. Barite mining, at Boguszow, was stopped in 1997, because of large-scale flooding. Also not produced in 2000 were bentonite, calcined magnesite, magnesite concentrate, and quartz schist.

Poland's mining and mineral-processing industry was extensive and appeared well positioned to respond to the country's rising needs for all forms of raw materials, especially those consumed by the construction sector. A major trend in Poland's nonferrous metals sector was the denationalization program that encompassed the aluminum, copper, and zinc industries. The acquisition of former German territories in 1945 enriched Poland with hard coal and, to a lesser extent, zinc and lead. Iron ore was found around Czesochowa, in south-central Poland, but in deposits of low metal content. Uranium deposits occurred in Lower Silesia.

## 27 ENERGY AND POWER

The main domestic energy sources are coal, lignite, and peat; rivers remain a largely untapped source of power. In 2001, the net installed capacity was 30,559,000 kW. Production in 2000 was 135.2 billion kWh, of which 98.1% was from fossil fuels, 1.5% from hydropower, and less than 1% from other renewable sources. Consumption of electricity in 2000 was 119.3 billion kWh. Although the role of coal as an energy source is generally declining in north-central Europe, as of 1999, about 70% of Poland's primary energy requirement was still fulfilled by coal, followed by oil, natural gas, and hydropower. In 2001 coal accounted for 93% of Poland's primary energy production. However, consumption had declined 22% between 1993 and 2001.

In 2001, Poland produced about 178.9 million tons of coal. Poland's hard coal reserves are concentrated in Upper Silesia, near the border with the Czech Republic. Other major coal basins are located in Lower Silesia and Lublin. Proven coal reserves at the beginning of 2003 amounted to 24.4 billion tons (of which about two-thirds are anthracite and bituminous). A major restructuring of the coal industry was announced in 1998 that will result in the closing of up to 30 of Poland's 53 coal mines and maximize efficiency at the remaining facilities. As part of the restructuring the Polish government formed Kompania Weglowa, Europe's largest coal company, at the beginning of 2003.

At the beginning of 2003 Poland had proven oil reserves of 96.4 million barrels. Production in 2002 was 16,800 barrels per day. Poland has the largest oil refining capacity in north-central Europe, 350,000 barrels per day. With natural gas reserves of 164 billion cu m (5.79 trillion cu ft), Poland produces over one-third of its natural gas needs; production was about 5.5 billion cu m (190 billion cu ft) in 2001.

Poland has been gradually deregulating its power market since 1998. Each year an increasing number of companies are allowed to choose their own electricity provider. By 2006 the sector will be completely open.

## 28 INDUSTRY

Leading industries in 2002 included food processing, fuel, metals and metal products, chemicals, coal mining, glass, shipbuilding, and textiles. Industrial production increased by 14.5% annually during 1971–75, but in the late 1970s, the growth rate began to fall. During the 1980s, it grew at an annual rate of 1.1%. With the destabilizing effects of the dissolution of the Soviet bloc and central planning, industrial production initially fell by 26% in 1990 before returning to positive growth between 1991–98. In 2000, the leading industrial performers were oil products and derivatives, the automotive industry, and the wood and wood products sector. In 2001, however, Poland produced 387,058 automobiles, a 23% decrease from 2000. In 2000, Poland produced 3,150 heavy trucks.

Poland produced 10 million tons of steel per year in the mid-1990s. Sulfur is another important industrial commodity; production totaled 1,901 tons per year. The cement industry turned out 12.3 million tons during the same period. All these totals were lower than in the 1980s, however. Light industries were long relegated to a secondary position but, since the 1970s, Poland has increased its production of durable household articles and other consumer goods. In the mid-1990s, Poland produced 401,000 automatic washing machines, 584,000 refrigerators and freezers, 841,000 television sets, 307,000 radios, and 21,000 tape recorders and dictaphones per year.

## 29 SCIENCE AND TECHNOLOGY

Destruction of the Polish scientific community, buildings, and equipment during World War II was nearly total, requiring a tremendous rebuilding program. Attached to the various

university faculties and government bodies are institutes, laboratories, and clinics devoted primarily to research, but some offering advanced instruction. In 1952, the Polish Academy of Sciences, established in Warsaw, replaced the old Polish Academy of Sciences and Letters of Cracow; it has sections of biological sciences; mathematical, physical, and chemical sciences; technical sciences; agricultural and forestry sciences; medical sciences; and earth and mining sciences. As of 1996, 54 scientific and technological research institutes were affiliated with the Academy of Sciences, and there were 101 scientific and technological research institutes attached to government ministries. Research and development expenditures in 1987–97 amounted to 0.8% of GNP. Personnel engaged in research and development in 1987–97 included 1,358 scientists and engineers and 1,377 technicians per million people. In 1996, Poland had 50 universities offering courses in basic and applied sciences. In 1987–1997, science and engineering students accounted for 28% of university enrollment. In Warsaw are located a botanical garden and museums devoted to zoology, technology, and the earth. The Polish Maritime Museum is located in Gdansk. The Nicholas Kopernik Museum in Frambork includes exhibits on the history of medicine and astronomy.

## 30 DOMESTIC TRADE

In 1990, Poland replaced its 40-year old centrally planned economy with a free market system. Most small enterprises were privatized, bringing an end to chronic shortages of consumer goods. At the end of 1996, the share of private enterprises in retail trade exceeded 90%. The resulting increase in domestic demand was a primary factor in strengthening the business cycle. In the past few years, the trend in retail establishments, particularly in major cities, has moved from small, independent shops to international supermarket chains, hypermarkets, and large specialty stores. However, small business-owners have been forming associations aimed at promoting and preserving local, independent retailing. As of 2002, about 10% to 12% of the retail market was operated by foreign firms, particularly through chain stores providing a range of goods from food and apparel to furniture and hardware supplies. As of 2002, there were over 90 franchises in operation, with national firms as well as foreign firms represented.

Offices are open from 8 or 9 AM to 4 PM Monday through Friday. Food stores are open from 6 or 7 AM to 7 PM; other stores, from 11 AM to 7 or 8 PM; and banks, from 9 AM to 4 PM Monday through Friday, and 9 AM to 1 PM on Saturday. The most important trade exhibition, the Poznan International Fair, takes place in June.

## 31 FOREIGN TRADE

Until recently, foreign trade was a state monopoly under the control of the Ministry of Foreign Trade. After World War II, the orientation of Polish trade shifted from Western and Central European countries to Eastern Europe. This changed with the dissolution of the Soviet-bloc CMEA in 1991. In December of that year, Poland signed an association agreement with the EC (now the EU) and by 2000, 70% of its exports and 61% of its imports were going to EU members. Poland also fosters trade through its membership in the Central European Free Trade Agreement (CEFTA), which includes Hungary, the Czech Republic, and the Slovak Republic.

Poland's export commodities are a mixture of manufactured goods including furniture (7.0%), garments (6.1%), motor vehicles (4.6%), iron and steel (3.9%), and ships (3.3%). Export commodities formed from natural resources include wood (2.5%); coal, lignite, and peat (2.3%); and copper (2.3%).

In 2000 Poland's imports were distributed among the following categories:

Consumer goods	13.7%
Food	5.0%
Fuels	10.7%
Industrial supplies	33.7%
Machinery	23.8%
Transportation	12.9%
Other	0.2%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	11,005	11,638	-633
Italy	1,986	4,037	-2,051
France	1,624	3,113	-1,489
Netherlands	1,576	1,703	-127
United Kingdom	1,398	2,144	-746
Czech Republic	1,165	1,528	-363
United States	982	2,095	-1,113
Belgium	919	1,242	-323
Sweden	842	1,376	-534
Russia	831	4,605	-3,774

### <sup>32</sup>BALANCE OF PAYMENTS

Measured in terms of commodity trade figures, negative balances have been the rule in Poland in the post-World War II period. In 1991, the collapse of exports to the Soviet Union dealt a sharp blow to overall export performance. The requirement to exchange by means of hard currency for Soviet raw materials and energy prevented a repeat of the 1990 trade surplus. Poland attracted approximately \$50 billion of foreign direct investment between 1990 and 2000. Net official reserves have increased in recent years, due to large capital surpluses due to foreign direct investment and portfolio inflows.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Poland's exports was \$32.4 billion while imports totaled \$43.4 billion resulting in a trade deficit of \$11 billion.

The International Monetary Fund (IMF) reports that in 2001 Poland had exports of goods totaling \$41.7 billion and imports totaling \$49.3 billion. The services credit totaled \$9.75 billion and debit \$8.95 billion. The following table summarizes Poland's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	-5,357
Balance on goods	-7,660
Balance on services	804
Balance on income	-1,390
Current transfers	2,889
<b>Capital Account</b>	75
<b>Financial Account</b>	3,172
Direct investment abroad	89
Direct investment in Poland	5,713
Portfolio investment assets	46
Portfolio investment liabilities	1,067
Other investment assets	-4,071
Other investment liabilities	664
<b>Net Errors and Omissions</b>	1,682
<b>Reserves and Related Items</b>	428

### <sup>33</sup>BANKING AND SECURITIES

The Banking Law of 1 July 1982 substantially reformed the Polish banking system by giving banks an effective role in setting monetary and credit policy, thereby allowing them to influence economic planning. The Council of Banks, consisting of top bank officers and representatives of the Planning Commission and the Ministry of Finance, is the principal coordinating body.

The National Bank of Poland (Narodowy Bank Polski-NBP), created in 1945 to replace the former Bank of Poland, is a state institution and the bank of issue. It also controls foreign transactions and prepares financial plans for the economy. On 1 January 1970, the National Bank merged with the Investment Bank and has since controlled funds for finance and investment transactions of state enterprises and organizations. The function of the Food Economy Bank and its associated cooperative banks is to supply short and long-term credits to rural areas. The national commercial bank, Bank Handlowy w Warszawie (BH), finances foreign trade operations. The General Savings Bank (Bank Polska Kasa Opieki-PKO), a central institution for personal savings, also handles financial transfers into Poland of persons living abroad.

In March 1985, two types of hard-currency accounts were introduced: "A" accounts, bearing interest, for currency earned in an approved way; and "B" accounts, for other currency, bearing no interest. "B" accounts can be converted into "A" accounts after one year. Major enterprises in Poland conduct their business by interaccount settlements through the National Bank rather than by check, and wages are paid in cash. Banking laws in 1989 opened the country's banking system to foreign banks.

A fundamental reorganization of the banking sector took place between 1990 and 1992. The NBP lost all its central planning functions, including holding the accounts of state enterprises, making transfers among them, crediting their operations, and exercising financial control of their activities. The NBP thus became only a central bank, and state enterprises competed with other businesses for the scarce credits available from commercial banks. Nine independent (so-called commercial), although state-owned, regional banks were created.

In 1993, the first of these, the Poznan-based Wielkopolski Bank Kredytowy (WBK), was privatized. A second highly controversial privatization took place in early 1994 with the sale of the Silesian Bank (Bank Slaski). Also, the Krakow-based Bank Przemyslowo-Handlowy (BPH), was disposed of at the start of 1995 and Bank Gdanski was sold in late 1995. With four major banks privatized, five remained to be sold off in a process that was supposed to have been completed by 1996. With no real hope of meeting this deadline, the Polish government returned in 1996 to proposals for "bank consolidation" prior to privatization. A major round of privatization was due to begin in 1998-99 beginning with the sale of Pekao, the country's largest commercial bank. This sale finally put over half of the industry's holdings in private hands. At the same time, foreign investment in Polish banks continued to increase. Citibank, ING, Commerzbank, Allied Irish Bank, and J.P. Morgan were leading foreign investors in 1998. In the summer of 1999, Bank Handlowy and BRE announced plans to merge, but as of that December, the Polish government was blocking the deal alleging that rather than being a merger of equals, BRE was mounting a takeover of Handlowy.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$23.0 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$82.8 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 16.2%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 14%.

In early 1991 important legislation was introduced to regulate securities transactions and establish a stock exchange in Warsaw. At the same time, a securities commission was formed for consumer protection. A year later, the shares of 11 Polish companies were being traded weekly on the new exchange. Restructuring the financial market not only was necessary for increasing the overall efficiency of the economy and accelerating



privatization, but also was a precondition for the rapid influx of Western capital critical to economic development.

When the Warsaw Stock Exchange opened in April 1991, it had only five listed companies, but by September 1996 that figure had increased to 63. Into 1998, the market still suffered growing pains similar to those afflicting other emerging markets. In particular, the high liquidity of Polish stocks made Poland particularly vulnerable to panic selling. Market capitalization in 2001 was \$26 billion, down 17% from the \$31.3 billion level of 2000. The WIG All Share Performance Index was at 13,922.2 in 2001, down 22% from 17,847.6 in 2000.

### 34 INSURANCE

In 1948, all insurance other than social insurance was included in a centralized State Insurance Bureau, with the former reinsurance organization, Warta, continuing its activity. In 1994, Warta was privatized and was one of three major insurers who, together, controlled over 90% of Poland's insurance market. In 1999, 54 licensed insurance companies competed in the Polish market.

Insurance is dominated by a state concern, PZU, but a number of Western companies, including the UK's Commercial Union (CU), have been tempted into joint ventures in the life insurance end of this underdeveloped market. CU began its Polish operations in cooperation with the Wielkopolski Bank Kredytowy (WBK) bank. It sold around 130,000 policies in its first four years. PZU was privatized in 1999. In Poland, third-party auto liability, farmer's liability, fire insurance, workers' compensation, and nuclear liability are all compulsory.

### 35 PUBLIC FINANCE

The annual budget is presented to the *Sejm* in December and becomes effective for the fiscal year beginning on 1 January. A new set of economic reforms, announced in early 2002, aim to improve the country's investment climate and public finances. Privatization in the former Eastern bloc nation has been fairly successful, with approximately two-thirds of GDP now coming from the private sector. Poland was the first formerly planned economy in Eastern Europe to come out of recession and see growth in the early 90s.

The US Central Intelligence Agency (CIA) estimates that in 1999 Poland's central government took in revenues of approximately \$49.6 billion and had expenditures of \$52.3 billion. Overall, the government registered a deficit of approximately \$2.7 billion. External debt totaled \$64 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>49,600</b>
Tax revenue	87.7%	43,521
Non-tax revenue	11.4%	5,677
Capital revenue	0.6%	308
Grants	0.2%	94
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>53,300</b>
General public services	3.7%	1,955
Defense	3.4%	1,796
Public order and safety	3.3%	1,705
Education	4.8%	2,526
Health	0.8%	427
Social security	51.5%	26,909
Housing and community amenities	2.0%	1,057
Recreation, cultural, and religious affairs	0.7%	369
Economic affairs and services	4.6%	2,381
Other expenditures	19.1%	9,989
Interest payments	8.0%	4,186

### 36 TAXATION

Direct taxes in Poland in 2003 included a personal income tax with three brackets (19% up to yearly income of about \$9,000, 30% on income between \$9,000 and \$19,000, and 40% on income above \$19,000, with additional lump sums of about \$1,664 and \$4,500, respectively, paid at the 30%, and 40% levels); a corporate income tax with a standard rate of 27%; payroll taxes of 36% to 39%, depending on whether the job is hazardous (16% to 20% paid by the employer and 19% paid by the employee) covering retirement, disability, sickness, and occupational hazards insurance; and real estate taxes on land, building and constructions. Income from dividends are taxed at 15% and income from interest, fees and royalties at 20%. The top personal income tax rate has been lowered from 44% to 40%, and the corporate income tax rate lowered from 36% to 27%. Withholding taxes are applied to income of non-residents: 15% on income from dividends and 20% on income from interests and royalties, unless other rates have been agreed to in bilateral tax treaties (BITs). Poland has BITs with at least 66 countries. In the BIT with the United States, withholding rates are 0% on interest income, 10% on income from royalties, and 5% on dividend income if the receiving company owns at least 10% of voting shares.

The main indirect tax is a system of value-added taxes (VATs). There are four VAT rates: 22% on most goods and some services; 7% on processed foodstuffs and construction materials; 3% on unprocessed foodstuffs; 0% on exported goods and services, and "VAT-exempt" applied to several groups of services, including financial services, insurance and health care. Excise taxes are charged on alcohol, cars, petrol, and tobacco products. There is also a civil transactions tax ranging from 0.1% to 2%.

### 37 CUSTOMS AND DUTIES

Poland uses the Harmonized System of Classification. Products are divided into three categories to determine which rate they receive: developing nations, WTO members, and countries with which Poland has a special trade relationship such as a bilateral preferential trade agreement. Under the terms of a 1992 agreement, Poland uses the EU Nomenclature System of Tariff classification and has granted duty-free status to over 1,000 line items from EU countries. Tariffs range from 0% to nearly 400%. In addition, all goods are subject to a 5% import tax, an excise tax on luxury items, and a value-added tax of 0%, 3%, 7%, or 22%, depending on the commodity. As a result of its efforts to join in the next round of EU expansion, Poland is bringing its trade regulations in line with EU standards.

### 38 FOREIGN INVESTMENT

Prior to World War II, considerable foreign capital was invested in the Polish economy, particularly in petroleum and mining, which were mostly foreign owned. A nationalization decree in 1946 confiscated enemy properties and nationalized Poland's industries, eliminating foreign investments completely. The decree provided for no compensation procedures and foreign governments involved negotiated directly with Poland. The first joint venture with Western counterparts (one Austrian and one US company) was formed in early 1987 to build a new airport terminal in Warsaw. In mid-1991, there were 4,100 foreign registrations, worth \$506 million, and in 1993 another \$2 billion in foreign investment entered Poland. Among the industrial companies sold to Western interests were Polam-Pila (lightbulbs) to Phillips, Polkolor (TV sets) to Thomson, Pollena-Bydgoszcz (detergents) to Unilever, and Wedel (confectioneries) to Pepsico Foods.

In 1996-97, Poland continued to invite foreign investors to help the government turn some of its banks and oil, arms, and telecommunications companies over to the private sector. In

October 1996 President Aleksander Kwasniewski stated that the government's campaign to shed costly state-owned enterprises had been successful, with the private sector now accounting for about 70% of the goods and services produced in the economy. Total foreign direct investment (FDI) had reached nearly \$27.3 billion in 1998. FDI inflow in 1998 was \$6.3 billion, up from nearly \$5 billion in 1997, and increased to \$7.2 billion in 1999, undeterred by the effects of the Russian financial crisis. Annual FDI inflow peaked at over \$9.3 billion in 2000, having grown at an average rate of 44% a year since 1991 to 2000. Total FDI stock was over \$42 billion in 2000. In 2001 and 2002, the economic slowdown, and, particularly, the worldwide decline in foreign investments, helped reduce annual FDI inflows into Poland to \$8.3 billion in 2001 and to \$6.06 billion in 2002. Cumulative FDI as of 2002 was \$61.45 billion.

### 39 ECONOMIC DEVELOPMENT

After World War II, the economy of Poland was centrally planned and almost completely under state control, especially in nonagricultural sectors. The nationalized industries and businesses operated within the national economic plan and were governed by the directives issued by the pertinent ministries. After 1963, however, centralized planning and management were somewhat relaxed, and state-owned enterprises gained more freedom in the design and implementation of their programs. Private undertakings were confined to personal crafts and trades and agriculture.

Economic planning followed Soviet lines, setting production goals that determined tasks for each sector on a long-term basis. Under the three-year plan for 1947–49, principal emphasis was placed on the reconstruction of war-devastated areas and industries, in order to raise production and living conditions at least to their prewar levels. Under the six-year plan for 1950–55, the emphasis continued to be on heavy industry, and the housing, transport, agriculture, and consumer sectors lagged. The five-year plan for 1956–60, originally cast along the same lines, was modified after the 1956 disturbances. It called for a lessened rate of industrial expansion and for increases in agricultural output, housing, consumer goods, and social services. Under a long-range plan for 1961–75, which governed the three five-year plans falling within that period, emphasis was placed on a direct improvement in living standards. The first and second of these plans (1961–65 and 1966–70) were oriented toward investments intended (1) to develop the raw-material base of the country, especially the newly discovered resources of sulfur, copper, and lignite; (2) to secure employment opportunities for the rapidly growing population of working age; and (3) to improve Poland's international trade balance. The five-year plan for 1961–65 reached its industrial targets but fell short in the areas of agriculture and consumer goods. The period 1966–70 witnessed two poor agricultural years in addition to export lags, and there were shortages of basic food commodities in 1969–70.

In late 1970, violent protests erupted over the government's stepped-up efforts to increase production. After the change in political leadership from Gomulka to Gierek, government emphasis shifted from heavy industry to light, consumer-oriented production. In addition, through a concentration of investment in mechanization, fertilizers, and other farm improvements, the government sought and achieved a 50% increase in food production. Overall, the 1971–75 five-year plan achieved its main targets by a wide margin, with industrial production up about 73%. The 1976–80 plan, which aimed at a 50% increase in industrial production and a 16% increase in agricultural output, ran into difficulty almost from the beginning, and by 1979 the economy had entered a period of decline and dislocation that continued into 1982. An economic reform stressing decentralization of the economy was introduced in January 1982, but it failed to produce any significant

improvements. With price rises and consumer goods shortages continuing to fuel popular discontent, the government in March 1983 announced a three-year austerity plan for 1983–85. Its aims included a general consolidation of the economy, self-sufficiency in food production, and increased emphasis on housing and the production of industrial consumer goods. By 1986, the economy had rebounded. The 1986–90 plan expected the national income to grow 3–3.5% annually, industrial output to increase by 3.2% each year, and exports to grow by 5% (in fixed prices) annually. These goals were not reached. A "second stage," proclaimed in 1986, called for more autonomy for individual enterprises and for more efficient management, with top jobs filled without regard to political affiliations.

The Economic Transformation Program adopted in January 1990 aimed to convert Poland from a planned to a market economy. Measures were aimed at drastically reducing the large budget deficit, abolishing all trade monopolies, and selling many state-owned enterprises to private interests.

The slow pace of privatization picked up somewhat in 1995, as 512 smaller state enterprises were transferred to private National Investment Funds under the Mass Privatization Program, but large-scale industry remain largely in state hands. However, the government subsequently made an attempt to privatize such large-scale sectors of the economy as banks and oil, arms, and telecommunications. Poland in the early 2000s was in the process of bringing its economic policies in line with EU standards. These policies promise even further liberalization and foreign investment into the Polish economy. Poland was officially invited to join the EU in December 2002, with accession planned for May 2004. In 2002, the government announced a new set of economic reforms, including improving the investment climate (particularly for small- and medium-sized enterprises), and improving the country's public finances to prepare the way for the adoption of the euro.

### 40 SOCIAL DEVELOPMENT

A social insurance institute administers social security programs through a network of branch offices, under the provision of new legislation passed in 1998 and implemented in 1999. Social security, including social insurance and medical care, covers virtually the entire population. Old age, disability, and survivors' pensions are provided, as well as family allowances, sickness benefits, maternity benefits, workers' compensation, and unemployment. The retirement age for teachers, aviation and maritime workers, and workers in hazardous occupations is 60 for men and 55 for women; for most other workers it is 65 for men and 60 for women, if the former have been employed for 25 years and the latter for 20. Employers and employees contribute 9.76% of earnings or payroll toward the pension system; sickness and maternity benefits are funded by employee contributions and government subsidies.

Special family allowances have been a part of the social security program since 1947 and are paid to families with children, subject to a means test. Maternity benefits include full wages for a total of 16–18 weeks followed by a leave of 24–72 months paid at a reduced rate.

The constitution establishes that all citizens are equal, regardless of gender. However, discrimination exists particularly in the Labor Code. Women participate actively in the labor force, but are concentrated in low-paying professions, earning, on average, 30% less than men. Until 1996 the law prohibited women from working in 90 occupations in the industry, forestry, health care, agriculture and transportation sectors, and they are still banned from working underground or in jobs that require heavy lifting. Early retirement for women and the provision of child sickness benefits to women, make it more costly for employers to hire women. As a result, women are more likely to be unemployed. Violence against women and domestic abuse

remain a widespread problem. The law does not provide restraining orders, and even convicted abusers generally go unpunished. Sexual harassment in the workplace is slowly being addressed.

The Romani minority living in Poland faces discrimination by local authorities. Anti-Semitic harassment, vandalism, and violence persist. The judicial system is hampered by inefficiency and budget constraints, and there are marginal restrictions on freedoms of speech and press.

#### **41 HEALTH**

As of 1999, there were an estimated 2.3 physicians and 5.1 hospital beds per 1,000 people. The same year, the total health care expenditure was estimated at 6.2 % of GDP.

Poland's birth rate was an estimated 10.3 per 1,000 people as of 2002. In 1990–95 75% of married women (ages 15 to 49) used contraception. There were 440,603 births in 1999, translating to a total fertility rate of 1.6. In 1994, Poland immunized children up to one year old against tuberculosis, 94%; diphtheria, pertussis, and tetanus, 95%; polio, 96%; and measles, 96%. As of 1999, the rates for DPT and measles were, respectively, 98% and 97%.

Life expectancy in 2000 averaged 73 years and infant mortality was 9 per 1,000 live births. The general mortality rate was 10 per 1,000 people in 1999.

There were many cases of tuberculosis in 1994 as part of the spread of tuberculosis throughout much of Eastern Europe (39 per 100,000 people in 1999). The heart disease mortality rate for Polish men and women was below average for high human development countries. The likelihood of dying after 65 of heart disease in 1990–1993 was 240 in 1,000 for men and 201 in 1,000 for women. In 1994, there were 197,603 deaths due to cardiovascular disease. In Poland, the smoking prevalence in men was high (51%) and slightly less for women (29%) in 1993. HIV prevalence in 1999 was 0.1 per 100 adults. Approximately 12,000 people were infected with HIV as of 1997.

#### **42 HOUSING**

Almost 40% of all urban dwelling space was destroyed during World War II. Although investment in public housing has increased, and credits have been assigned for cooperative and private construction, the housing shortage remained critical five decades later. The average wait for an apartment ranged from 10–15 years. In 1984 there were 10,253,000 dwelling units; 4.6% had only one room, 21% consisted of two rooms, 35.5% of three rooms, 25.7% of four rooms, and 13.2% of five or more rooms. An additional 193,000 dwelling units were constructed in 1985. As of 1992, there was a shortage of 1.3 million housing units, a figure that was expected to reach 2.4 million in 2000. About 1.8 million apartments were expected to be lost due to deterioration by 2020.

#### **43 EDUCATION**

Virtually the entire Polish population is literate. For the year 2000, adult illiteracy was estimated at 0.2% (males, 0.2%; females 0.2%). Primary, secondary, and most university and other education is free. State and local expenditure on education is, therefore, substantial. Lower schools are financed by local budgets, higher and vocational schools from the state budget. In the latter half of the 1990s, approximately 24.8% of government expenditure was allocated to education. As of 1999, public expenditure on education was estimated at 5.4% of GDP.

The school system, which is centralized, consists of an eight-year primary school followed by a four-year secondary general education school, five-year technical school, or basic three-year vocational training school. In 1996, primary schools had a combined enrollment of 5,021,378 students and a staff of 325,601 teachers. Student-to-teacher ratio stood at 15 to 1. In the

same year, secondary schools had 2,539,138 students and 121,301 teachers. As of 1999, 97% of primary-school-age children were enrolled in school, while 88% of those eligible attended secondary school. Vocational schools are attended by students studying technology, agriculture, forestry, economy, education, health services, and the arts. Institutions of higher learning had 75,432 teachers and enrolled 720,267 students in 1996.

Higher learning is under the jurisdiction of the Ministry of Higher Education and other ministries. A matriculation examination, which is common for all students, is required for admission to institutions of higher learning. Of the 98 third-level institutions, 11 are universities, 18 polytechnical schools, 17 art schools, 11 medical academies, and three theological academies. Jagiellonian University, among the oldest in Europe, was established at Cracow in 1364. Other prominent universities are the Warsaw University; the Central School of Planning and Statistics (Warsaw); the Higher Theater School (Warsaw); the Academy of Fine Arts (Cracow); and the Adam Mickiewicz University (Poznań). During the communist era the Roman Catholic University at Lublin was the only free private university in the Socialist bloc. Evening and extramural courses are available for anyone who is interested and is not a part of the school system. Foreign students are also welcome to study in Poland, either as regular students or at their summer schools.

#### **44 LIBRARIES AND MUSEUMS**

The National Library, established in Warsaw in 1928, is the second-largest in Poland, with about 2.8 million volumes, including periodicals, manuscripts, maps, illustrations, and music. Other important libraries are the Public University and the government departmental libraries in Warsaw; Poland's largest library, the Jagiellonian University Library in Cracow, which has 3.5 million volumes; and the Ossolineum Library in Wroclaw. In 1997 there were 9,230 public libraries, jointly holding almost 135 million volumes. Lax security at Poland's libraries poses a challenge to the preservation of rare documents: in 1998, a scientific library in Cracow reported the theft of a rare book by Nicholas Copernicus, and in 1999, the Jagiellonian University Library reported the theft of an indeterminate number of rare manuscripts.

Of the more than 500 museums in Poland, the foremost is the National Museum in Warsaw, which has an extensive and important art collection as well as a collection of Polish art from the 12th century to present day. Other important museums are the National Museum in Cracow, notable for its collection of Far Eastern Art, and the National Museum in Poznań, which has a celebrated collection of musical instruments. Cracow also has an important collection of European decorative arts at the Wawel Royal Castle, housed in a 16th century manor house, and the Czartoryski Museum, a world-class collection of antiquities and contemporary artifacts including 35,000 prints, drawings, and paintings. Warsaw has dozens of museums, including the Center for Contemporary Art, founded in 1986, in Ujazdowski Castle; the Museum of Independence, founded in 1990, chronicling Poland's pivotal role in the collapse of the Soviet Empire; the Museum of Polish Emigration to America; the Frederick Chopin Museum, chronicling the life of one of the country's best-known composers; the Marie Curie Museum, housed at her birthplace; and the Museum of the Jewish Historical Institute.

#### **45 MEDIA**

All communications services are government owned and operated; however, a privatization process is underway. In 1998 there were 8 million main line telephones and 1.7 million mobile cellular phones.

In 1995 the three national radio networks were Polskie Radio, Radio Solidarnosc, and Radio Z, and television programming

was broadcast by Telewizja Polskie. As of 1998, there were 14 AM and 777 FM radio stations. As of 1995, there were 179 television stations. In 2000, there were about 523 radios and 400 television sets for every 1,000 people. The same year, there were about 69 personal computers in use for every 1,000 people, with 19 Internet service providers serving about 3.5 million users in 2001.

The largest Polish daily newspapers, with 2002 circulations, include the following:

	CIRCULATION
<i>Trybuna Slaska</i>	800,000
<i>Gazeta Wyborcza</i>	(wkend) 686,000
<i>Dziennik Zachodni</i>	510,000
<i>Express Wieczorny</i>	400,000
<i>Zycie Warszawy</i>	(wkend) 460,000
<i>Express Ilustrowany</i>	370,000
<i>Gazeta Poznanska</i>	(wkend) 320,000
<i>Gazeta Robotnicza</i>	315,000
<i>Rzeczpospolita</i>	280,000
<i>Czas Krakowski</i>	(wkend) 260,000
<i>Sztandar Mlodych</i>	250,000

Though the constitution provides for free speech and a free press, there are some restrictions on these rights. The Penal Code prohibits speech which publicly insults or ridicules the Polish state or its principal organs; it also prohibits advocating discord or offending religious groups. Though the media are not censored, they may be subject to prosecution under these and other penal codes.

#### 46 ORGANIZATIONS

The Polish Chamber of Commerce and the Chamber of Foreign Trade promote foreign trade by furnishing information, establishing or extending commercial relations, and arranging for Polish participation in trade fairs, and exhibitions abroad. The most important worker's organization in Poland is Solidarity, founded in 1980 by Lech Welesa. There are a number of professional associations and trade unions representing a wide variety of occupations.

There are also many cultural, sports and social organizations in Poland. National youth organizations include the European Federalist Youth, Polish Students' Union, Polish Environmental Youth Movement, Union of Young Christian Democrats, The Polish Scouting and Guiding Association, and YMCA/YWCA. National women's organizations include the Democratic Women's Union and the Polish Association of University Women. Other social action groups include the Helsinki Human Rights Foundation and Fundacja Stefana Batorego, a group which promotes a democratic and open society. The Red Cross is also active.

#### 47 TOURISM, TRAVEL, AND RECREATION

The main tourist attractions include the historic city of Cracow, which suffered little war damage; the resort towns of Zakopane, in the Tatras, and Sopot, on the Baltic; and the restored Old Town in Warsaw, as well as the capital's museums and Palace of Science and Culture. Camping, hiking, and soccer are among the most popular recreational activities.

Foreign visitors to Poland must have a valid passport. Citizens of over 30 countries, including the United States and the United Kingdom, may stay up to 90 days without a visa.

The number of tourists was approximately 17.4 million in 2000 and tourist receipts amounted to \$6.1 billion. There were 60,853 hotel rooms with 120,280 beds and a 40% occupancy rate.

In 2000 the US government estimated the cost of staying in Warsaw at \$249 per day. Elsewhere in Poland, daily travel expenses were estimated to be between \$143 and \$229.

#### 48 FAMOUS POLES

Figures prominent in Polish history include Mieszko I (fl.10th century), who led Poland to Christianity; his son and successor, Boleslaw I ("the Brave," d.1025), the first king of sovereign Poland; Casimir III ("the Great," 1309–70), who sponsored domestic reforms; and John III Sobieski (1624–96), who led the Polish-German army that lifted the siege of Vienna in 1683 and repelled the Turkish invaders. Tadeusz Andrzej Bonawentura Kościuszko (1746–1817), trained as a military engineer, served with colonial forces during the American Revolution and then led a Polish rebellion against Russia in 1794; he was wounded, captured, and finally exiled. Kazimierz Pulaski (1747–79) fought and died in the American Revolution, and Haym Salomon (1740–85) helped to finance it. The reconstituted Polish state after World War I was led by Józef Pilsudski (1867–1935), who ruled as a dictator from 1926 until his death. Polish public life since World War II has been dominated by Wladyslaw Gomulka (1905–82), Edward Gierek (1913–2001), and Gen. Wojciech Jaruzelski (b.1923), Communist leaders, respectively, during 1956–70, during 1970–80, and after 1981. Important roles have also been played by Stefan Cardinal Wyszynski (1901–81), Roman Catholic primate of Poland, archbishop of Gniezno and Warsaw, and frequent adversary of the postwar Communist regime; Karol Wojtyla (b.1920), archbishop of Cracow from 1963 until his elevation to the papacy as John Paul II in 1978; and Lech Walesa (b.1943), leader of the Solidarity movement during 1980–81, Nobel Peace Prize laureate in 1983, and President of Poland from 1990 to 1995.

The father of Polish literature is Nicholas Rey (1505–69), one of the earliest Polish writers to turn from Latin to the vernacular. Poland's golden age is marked by the beginning of literature in Polish; its greatest poet was Jan Kochanowski (1530–84). Notable among 19th-century poets and dramatists was Adam Mickiewicz (1798–1855), whose *The Books of the Polish Nation and of the Polish Pilgrimage*, *Pan Tadeusz*, and other works exerted a paramount influence on all future generations. Other leading literary figures were the poets and dramatists Juliusz Slowacki (1809–49) and Zygmunt Krasinski (1812–59), whose *Dawn* breathed an inspired patriotism. Józef Kraszewski (1812–87), prolific and patriotic prose writer, is considered the father of the Polish novel. The leading late-19th-century novelists were the realists Aleksander Glowacki (1847–1912), who wrote under the pseudonym of Boleslaw Prus, and Henryk Sienkiewicz (1846–1916), Poland's first Nobel Prize winner (1905), whose *The Trilogy* described the 17th-century wars of Poland; he is internationally famous for *Quo Vadis*. Another Nobel Prize winner (1924) was the novelist Wladyslaw Reymont (1867–1925), acclaimed for *The Peasants*. A Pole who achieved stature as an English novelist was Joseph Conrad (Józef Teodor Konrad Korzeniowski, 1857–1924). Other important literary figures around the turn of the century were the playwright and painter Stanislaw Wyspianki (1869–1907), the novelist Stefan Zeromski (1864–1926), and the novelist Stanislaw Ignacy Witkiewicz (1885–1939). The best-known modern authors are novelist and short-story writer Isaac Bashevis Singer (1904–91), a Nobel Prize winner in 1978 and a US resident since 1935; the satirist Witold Gombrowicz (1904–69); science-fiction writer Stanislaw Lem (b.1921); the dissident novelist Jerzy Andrzejewski (1909–83); the poet Czeslaw Milosz (b.1911), a Nobel Prize winner in 1980 and resident of the United States since 1960; and novelist Jerzy Kosinski (1933–91), who lived in the United States since 1957 and wrote in English.

The greatest Polish composer was Frédéric Chopin (1810–49), born in Warsaw, who lived in Paris after 1831. A popular composer was Stanislaw Moniuszko (1819–72), founder of the Polish national opera and composer of many songs; he influenced such later composers as Wladyslaw Zelenki (1837–1921),

Zygmunt Noskowski (1846–1909), and Stanislaw Niewiadomski (1859–1936). Other prominent musicians include the pianist Ignacy Jan Paderewski (1860–1941), also his country's first prime minister following World War I; the great harpsichordist Wanda Landowska (1877–1959); the renowned pianist Arthur Schnitzler (1887–1982); the violinist Wanda Wilkomirska (b.1929); the conductor Stanislaw Skrowaczewski (b.1923); and the composers Mieczyslaw Karłowicz (1876–1909) and Karol Szymanowski (1883–1937). Witold Lutoslawski (1913–94) and Krzysztof Penderecki (b.1933) are internationally known contemporary composers.

The first Polish painters of European importance were Piotr Michałowski (1800–55) and Henryk Rodakowski (1823–94). In the second half of the 19th century, Polish realism reached its height in the historical paintings of Jan Matejko (1838–93), Artur Grottger (1837–67), Juliusz Kossak (1824–99), and Józef Brandt (1841–1915), as well as in genre painting and the landscapes of Wojciech Gerson (1831–1901), Józef Szermentowski (1833–76), Aleksander Kotsis (1836–77), Maksymilian Gierymski (1846–74), Aleksander Gierymski (1849–1901), and Józef Chelmoński (1849–1914). Feliks Topolski (1907–89), who lived in London since 1935, is well known for his oil paintings, watercolors, and drawings. Andrzej Wajda (b.1926), Roman Polański (b.1933), an expatriate since the mid-1960s, and Krzysztof Zanussi (b.1939) are famous film directors, and Jerzy Grotowski (1933–1999) was a well-known stage director.

The outstanding scientist and scholar Nicolaus Copernicus (Mikolaj Kopernik, 1473–1543) is world renowned. Among Poland's brilliant scientists are Maria Skłodowska-Curie (1867–1934), a codiscoverer of radium and the recipient of two Nobel Prizes, and Casimir Funk (1884–1967), the discoverer of vitamins. Oskar Lange (1904–66) achieved renown as an economist.

#### 49 DEPENDENCIES

Poland has no territories or colonies.

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# PORTUGAL

Portuguese Republic  
*República Portuguesa*

**CAPITAL:** Lisbon (Lisboa)

**FLAG:** The national flag, adopted in 1911, consists of a green field at the hoist and a larger red field. At the junction of the two, in yellow, red, blue, and white, is the national coat of arms.

**ANTHEM:** *A Portuguesa (The Portuguese)*.

**MONETARY UNIT:** The escudo (E) was replaced by the euro as official currency as of 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Carnival Day, 15 February; Anniversary of the Revolution, 25 April; Labor Day, 1 May; National Day, 10 June; Assumption, 15 August; Republic Day, 5 October; All Saints' Day, 1 November; Independence Day, 1 December; Immaculate Conception, 8 December; Christmas, 25 December. Movable religious holidays include Carnival Day, Good Friday, and Corpus Christi.

**TIME:** GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The westernmost country of Europe, Portugal occupies the greater portion of the western littoral of the Iberian Peninsula. Portugal has an area of 92,391 sq km (35,672 sq mi), including the Azores (Açores) Archipelago, and Madeira and Porto Santo. Comparatively, the area occupied by Portugal is slightly smaller than the state of Indiana. The mainland of Portugal extends 561 km (349 mi) N-W and 218 km (135 mi) N-W. Bordered on the N and E by Spain and on the S and W by the Atlantic Ocean, Portugal has a total boundary length of 3,007 km (1,868 mi), of which 1,793 km (1,114 mi) is coastline.

Portugal's capital city, Lisbon, is located on Portugal's west coast.

## <sup>2</sup>TOPOGRAPHY

Portugal exhibits sharp topographic contrasts. Although the north is largely lowland or land of medium altitude, the distribution of highlands is unequal north and south of the Tagus (Tejo) River. From north to south, the principal mountain ranges are the Peneda (reaching a maximum height of 1,416 m/4,646 ft), Gerês (1,507 m/4,944 ft), Marão (1,415 m/4,642 ft), Montemuro (1,382 m/4,534 ft), the Açor (1,340 m/4,396 ft), and Lousã (1,204 m/3,950 ft), all north of the Tagus. The uplands of Beira, traversed by the Tagus on its way to the sea, contain Portugal's highest peak, Estrêla (1,991 m/6,532 ft). Westward lies the low coast of the Beira Littoral. The Tagus and Sado basins lie adjacent to the hilly area of Estremadura and rise to the hills of Alentejo on the east. The interior lowland of lower Alentejo, farther south, is limited by the hills of Algarve. The south coast, from the mouth of the Guadiana to Cape St. Vincent, is mainly steep, but northward from Cape St. Vincent to the Tagus, including the great Bay of Setúbal and the estuary of the Tagus, the coast is low. North of the Tagus, it rises steeply toward the hills of Sintra, beyond which is a low coast of dunes interrupted by the marshes of Aveiro. Beyond the mouth of the Douro River, the coast is steep all the way to the Spanish frontier and the mouth of the Minho River. The larger rivers—the Minho, the Douro, the

Tagus, and the Guadiana—all rise in Spain. The Douro has the longest course in Portugal (322 km/200 mi).

## <sup>3</sup>CLIMATE

Marked seasonal and regional variations within temperate limits characterize the climate. In the north, an oceanic climate prevails: cool summers and rainy winters (average rainfall 125–150 cm/50–60 in annually), with occasional snowfall. Central Portugal has hot summers and cool, rainy winters, with 50–75 cm (20–30 in) average annual rainfall. The southern climate is very dry, with rainfall not exceeding 50 cm (20 in) along the coast. In Lisbon, the average temperature is about 24°C (75°F) in July and 4°C (39°F) in January. The annual mean temperature in Portugal is 16°C (61°F).

## <sup>4</sup>FLORA AND FAUNA

Three types of vegetation can be distinguished in Portugal: the green forests of eucalyptus, pine, and chestnut in the north; the open dry grasslands, interrupted by stands of cork and other types of evergreen oak, in the central areas; and the dry, almost steppelike grasslands and evergreen brush in the south. Few wild animals remain in Portugal. The coastal waters abound with fish, sardines and tuna being among the most common species.

## <sup>5</sup>ENVIRONMENT

Air and water pollution are significant environmental problems especially in Portugal's urban centers. Industrial pollutants include nitrous oxide, sulfur dioxides, and carbon emissions. In 1996, industrial carbon dioxide emissions totaled 47.9 million metric tons. The nation's water supply, especially in coastal areas, is threatened by pollutants from the oil and cellulose industries. Portugal has 37 cubic kilometers of renewable water, of which 53% is used to support farming and 40% is for industrial activity. In total, the nation's cities produce an average of 2.6 million tons of solid waste. The nation's wildlife and agricultural activities are threatened by erosion and desertification of the land.

The principal environmental agencies in Portugal include the Ministry of Quality of Life and the Office of the Secretary of State for the Environment. The nation's basic environmental legislation dates from 1976. In 2001, 13 of Portugal's mammal species and 7 of its bird species were endangered, as well as 186 plant species. Endangered species in Portugal include the Spanish Lynx, rosalia, Mediterranean monk seal, and Spanish imperial eagle. The São Miguel bullfinch and three species of turtle (green sea, hawksbill, and leatherback) were endangered in the Azores. The Mediterranean monk seal and four species of turtle (green sea, hawksbill, Kemp's ridley, and leatherback) were endangered in Madeira.

## 6 POPULATION

The population of Portugal in 2003 was estimated by the United Nations at 10,062,000, which placed it as number 78 in population among the 193 nations of the world. In that year approximately 16% of the population was over 65 years of age, with another 16% of the population under 15 years of age. There were 93 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.13%, with the projected population for the year 2015 at 10,030,000. The population density in 2002 was 114 per sq km (294 per sq mi). Approximately two-thirds of the population lives in coastal areas.

It was estimated by the Population Reference Bureau that 38% of the population lived in urban areas in 2001. The capital city, Lisbon, had a population of 3,754,000 in that year. Oporto, the next largest city, had a metropolitan population of 1,179,510. These two metropolitan areas account for most of the urban dwellers in the country. According to the United Nations, the urban population growth rate for 2000–2005 was 1.7%.

## 7 MIGRATION

Portuguese emigration, which decreased from an annual average of 48,000 persons during the decade 1904–13 to 37,562 in 1961, increased sharply after 1963 as a result of acute labor shortages in other European countries, especially in France and the Federal Republic of Germany (FRG). By 1970, it was estimated that more than 100,000 Portuguese were emigrating yearly. Legal emigration to the FRG continued to increase until November 1973, when the FRG suspended non-EC immigration. Overall, more than 130,000 Portuguese emigrated in 1973. Because of the loss of Portugal's African colonies in 1975, an estimated 800,000 Portuguese settlers returned to Portugal. Since then at least 25,000 generally return from abroad each year, mostly from other European countries or America. As of 1989, some 4,000,000 Portuguese were living abroad, mainly in France, Germany, Brazil, South Africa, Canada, Venezuela, and the US. Their remittances home came to 8.3% of the nation's GDP in 1989.

There were 121,513 legally registered foreigners in 1991, including 52,037 Africans. In 1998, a total of 338 asylum applications were submitted, and 28 people were granted temporary protection or humanitarian status. The total refugee population at the end of 1998 was 340. In the first half of 1999, 126 asylum applications were filed. Also in 1999, Portugal accepted 1,271 Kosovar Albanians from Macedonia under the UNHCR/IOM Humanitarian Evacuation Programme. In 1999 the net migration rate was -1.51 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The Portuguese people represent a mixture of various ethnic strains. In the north are traces of Celtic influence; in the south, Arab and Berber influence is considerable. Other groups—Lusitanians, Phoenicians, Carthaginians, Romans, Visigoths, and Jews—also left their mark on the Portuguese people. The present-day Portuguese population is one of the most homogeneous in

Europe, with the only minority being the less than 100,000 citizens of black African descent who immigrated to the mainland during decolonization.

## 9 LANGUAGES

Portuguese, the national language, evolved from ancient dialects of Latin; its rules of orthography were reformulated in 1911. Portuguese is also the official language of Brazil and the former African provinces. Spanish, French, and English are the most common second languages.

## 10 RELIGIONS

Although most Portuguese are Roman Catholic, other religions enjoy freedom of worship. In 2002, about 80% of the population aged 12 or older identified themselves as Roman Catholic; though many claimed that they are not active participants in the church. Protestants constituted about 4% of the populace; and various other groups made up about 1%. Nearly 3% claim no religious affiliation.

Christian groups include Seventh-Day Adventists, the Church of Jesus Christ of Latter-Day Saints, Orthodox Christians, and Brazilian syncretic Catholic churches. There are about 35,000 Muslims, 700 Jews, and small groups of Buddhists, Taoists, and Zoroastrians. About 7,000 people are Hindus. An estimated 100,000 people, who live mainly in the north, are nominally Roman Catholics but keep some Jewish practices; these are descendants of the Marranos, a Spanish term for those who outwardly converted to Christianity but secretly practiced Judaism after the expulsion of all professing Jews from Spain and Portugal at the end of the 15th century.

In 2001 a new law on religious freedom was passed in the National Assembly. This law extends to minority religions more of the privileges previously extended only to the Roman Catholic Church.

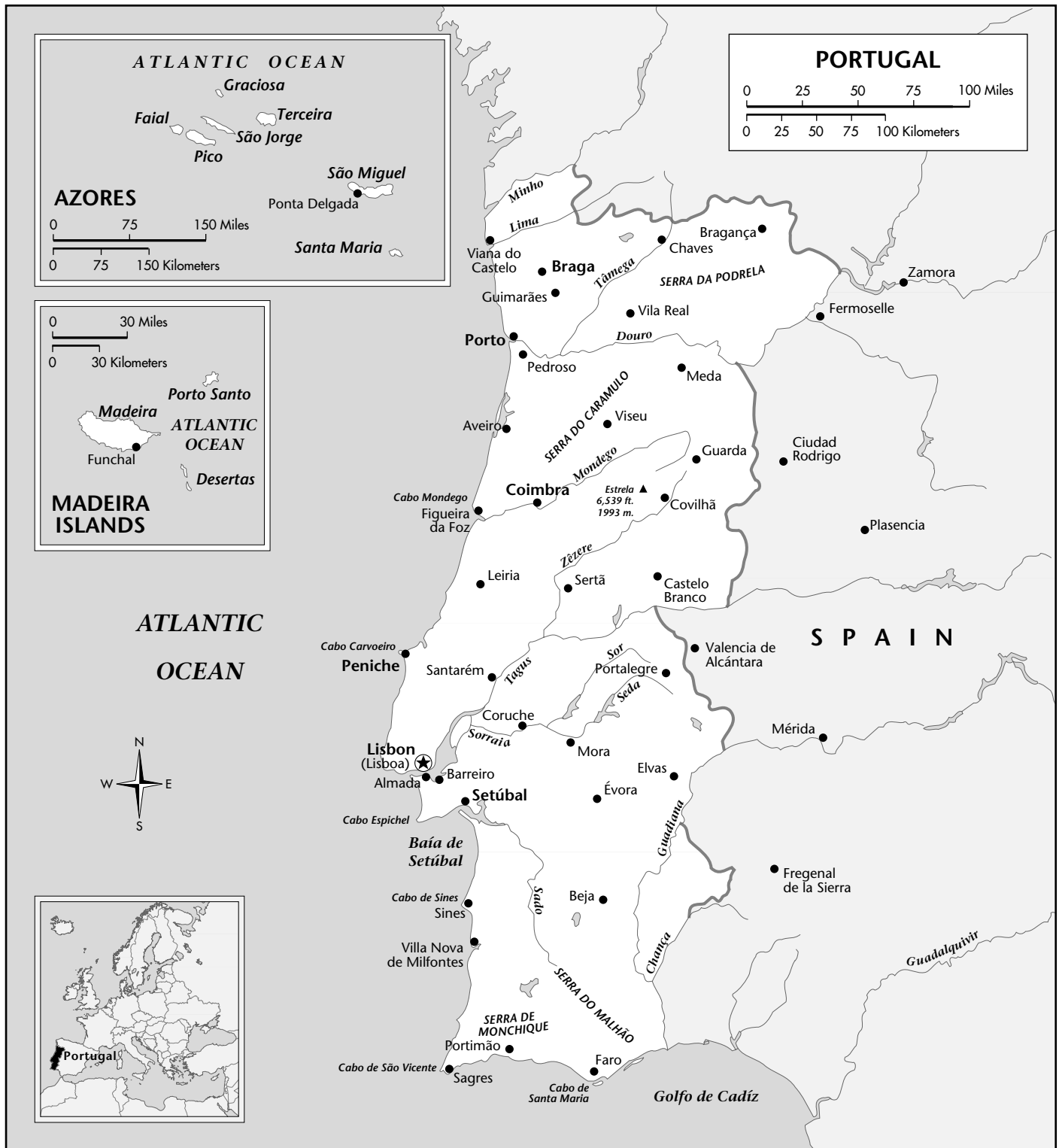
## 11 TRANSPORTATION

The Portuguese railways are almost entirely owned and operated by the nationalized Portuguese Railway Company. The railway system, which is adequate for Portugal's needs, totals 2,850 km (1,771 mi) of track, comprised mostly of wide gauge (1.67 m) single track, of which 623 km (387 mi) have been electrified.

The length of usable highways in 2002 was 68,732 km (42,710 mi), of which 59,110 km (36,731 mi) were paved, including 797 km (495 mi) of expressways. The principal highways connect Lisbon and Porto with La Coruña in Spain, and Lisbon with Madrid via Badajoz. Bus service links all Portuguese cities, towns, and principal villages. In 2000 there were 4,750,000 motor vehicles registered in continental Portugal, including 3,443,000 passenger cars, and 1,307,000 trucks, buses, and other commercial vehicles.

As of 2002, the Portuguese merchant fleet had 140 oceangoing vessels of over 1,000 gross tons, totaling 1,001,440 GRT. The main shipping firm is the Portuguese Maritime Transport Co., created after the private shipping companies were nationalized in 1975. It maintains scheduled services to the Azores, Madeira, Macao, and the former overseas territories in Africa; there is regular service to Brazil and North America. The chief ports—Lisbon (the largest), Porto, Ponta Delgada, and Sines—are all fully equipped and have adequate warehousing facilities. Portugal has created a captive register of convenience on Madeira for Portuguese-owned ships, allowing for taxation and crewing benefits.

In 2001, Portugal had 67 airports, 40 with paved runways. Because of their geographical position, Lisbon's Portela Airport and Santa Maria in the Azores are of great importance in international aviation. Portela is one of the principal airports for overseas flights to North and South America and to western and



LOCATION: 36°57' 39" to 42°9' 8" N; 6°11' 10" to 9°29' 45" W. BOUNDARY LENGTHS: Spain, 1,214 kilometers (755 miles); Atlantic coastline, 1,793 kilometers (1,113 miles). TERRITORIAL SEA LIMIT: 12 miles.

central Africa; Santa Maria is a stopping point for transoceanic flights from Europe to North America. The most important aviation company in Portugal is Transportes Aereos Portugueses (TAP), which was nationalized in 1975. In 2001, 6,650,800 passengers were carried on domestic and international scheduled flights.

## 12 HISTORY

Portugal derives its name from ancient Portus Cale (now Oporto), at the mouth of the Douro River, where the Portuguese monarchy began. The country's early history is indistinguishable from that of the other Iberian peoples. Lusitanians were



successively overrun by Celts, Romans, Visigoths, and Moors (711). In 1094, Henry of Burgundy was given the county of Portugal by the king of Castile and León for his success against the Moors; his son, Alfonso I (Alfonso Henriques), became king and achieved independence for Portugal in 1143, beginning the Burgundy dynasty. By the mid-13th century, the present boundaries of Portugal were established, and Lisbon became the capital.

During the reign of King John (João) I, the founder of the powerful Aviz dynasty and husband of the English princess Philippa of Lancaster, the Portuguese defeated the Spanish in a war over the throne (1385), established a political alliance with England (by the Treaty of Windsor in 1386) that has endured to the present day, and inaugurated their most brilliant era. Prince Henry the Navigator (Henrique o Navegador), a son of John I, founded a nautical school at Sagres, where he gathered the world's best navigators, cosmographers, geographers, and astronomers and commenced a series of voyages and explorations that culminated in the formation of the Portuguese Empire. In the 15th and 16th centuries, the golden age of Portugal, Portuguese explorers sailed most of the world's seas; made the European discovery of the Cape of Good Hope, Brazil, and Labrador; founded Portugal's overseas provinces in western and eastern Africa, India, Southeast Asia, and Brazil; and poured the vast riches of the empire into the homeland. In 1580–81, Philip II of Spain, claiming the throne, conquered Portugal and acquired its empire, but national sovereignty was restored by the revolution of 1640 and the accession of John IV, founder of the Bragança dynasty, to the Portuguese throne. John IV ushered in Portugal's silver age, the 17th and 18th centuries, when the wealth of Brazil once more made Lisbon one of the most brilliant of European capitals. The city was largely destroyed by a great earthquake in 1755 but was subsequently rebuilt. During the Napoleonic wars, Portugal, faithful to its British alliance, was the base of British operations against the French in the Iberian Peninsula. The royal family, however, withdrew to Brazil, and from 1807 to 1821, Rio de Janeiro was the seat of the Portuguese monarchy. In 1822, Brazil, ruled by Pedro, the son of King John VI of Portugal, formally declared its independence; Pedro became Emperor Pedro I of Brazil but was deposed in 1831.

The Bragança dynasty, which had ruled Portugal since 1640, came to an end with the revolution of 1910, when the monarchy was replaced by a republican regime. Lack of stability under the new republic led to a military dictatorship in 1926. Marshal António Carmona served as president from 1926 to 1951. António de Oliveira Salazar, brought to the government in 1928 as minister of finance, emerged as Portugal's prime minister in 1932. In 1933, Salazar proclaimed a new constitution, which consolidated his regime and established Portugal as a corporative state. During World War II, Portugal supported the Allies but did not take part in combat; it subsequently became a member of NATO.

Despite its reduced status as a European power, Portugal attempted to maintain its overseas empire, especially its resource-rich African provinces. In 1961, Portugal surrendered Goa, Daman, and Diu to India. In the same year, uprisings in Angola began, organized by the Union of Angolan Peoples in protest against Portugal's oppressive policies in the territory. These uprisings led to serious disagreements between the UN and Portugal; following Portugal's refusal to heed its recommendations for liberalization of policies with a view toward eventual self-government, the UN General Assembly passed a resolution in 1965 calling for a worldwide economic and arms boycott of Portugal in order to force it to grant independence to its African dependencies. Subsequently, the Assembly passed a number of resolutions condemning Portugal for its policies in its African territories. Meanwhile, guerrilla movements in Angola, Mozambique, and Guinea-Bissau were

met by a steadily increasing commitment of Portuguese troops and supplies.

Salazar, who served as prime minister of Portugal from 1932 to 1968, died in July 1970 at the age of 81. When he was incapacitated in September 1968, he was succeeded by Marcello Caetano. The unwillingness of the Caetano regime to institute democratic and economic reforms, coupled with growing discontent over the continuance of the ever more costly colonial war in Africa, led to a military coup by the left-wing Armed Forces Movement in April 1974. Broad democratic liberties were immediately granted and opposition political parties legalized, while the corporate state apparatus was gradually dismantled. A decolonization program was also begun, resulting by November 1975 in the independence of all of Portugal's African provinces.

The first provisional coalition government came to power in May 1974, with Gen. António Sebastião Ribeiro de Spínola, whose book *Portugal and the Future* had played a key role in focusing antiwar sentiment among the military, as president. In September 1974, after a power struggle with the leftist forces, Gen. Spínola resigned and was replaced by Gen. Francisco da Costa Gomes. Following an unsuccessful right-wing coup attempt in March 1975, Gen. Spínola was forced to flee the country, along with a number of officers. The continued dissension between right and left—and between Communist and Socialist factions on the left—was evidenced by the numerous provisional governments that followed the coup. In April 1975, general elections were held for a Constituent Assembly, whose task was to draw up a new constitution. Legislative elections were held in April 1976 and presidential elections in June. Gen. António dos Santos Ramalho Eanes was elected president, and the leader of the Portuguese Socialist Party, Mário Alberto Nobre Lopes Soares, became prime minister. Mainly as a result of policy differences within the governing coalition, this administration fell in July 1978 and was replaced by a caretaker cabinet.

After a succession of different coalitions, the Socialist Party won a 35% plurality in the parliamentary elections of April 1983, and Soares was again named prime minister, forming a coalition government with the center-right Social Democratic Party (Partido Social Democrático—PSD). Political turbulence increased after the election, and in 1984, urban terrorism appeared. In the following year, Portugal entered the EC, boosting the economy. Political instability continued, however, and a general election was called in October 1985. The vote brought the PSD to power with a slim plurality; Prof. Aníbal Cavaço Silva was able to form a minority government. In 1986, four candidates ran for president; none was able to win a majority, and in the ensuing runoff election, former prime minister Soares won a narrow victory to become the nation's first civilian president in 60 years. In 1987, the government lost a vote of confidence, and Soares called a general election; the PSD under Silva won a majority in the Assembly, achieving the first such government since democracy was restored in 1974.

The PSD was returned to power in 1991 and Mário Soares was reelected president for a second five-year term on 13 January 1991. Economic recession, government deficits, and regional development initiatives were major concerns in the 1990s.

Following the success of the Socialist Party (Partido Socialista—PS) in the legislative elections held in October 1995, Socialist Jorge Sampaio defeated Silva to succeed Soares as president on 14 January 1996. (Sampaio won reelection for a second five-year term in January 2001.) António Guterres was reappointed prime minister. The goal of the Guterres government was to prepare Portugal for entry into the European economic and monetary union. Successive austerity measures were legislated, with the support of the center-right PSD, to guarantee Portugal's participation in the euro zone (this took place in 1999). The socialist government at the same time presided over a remarkable economic recovery after 1996. Thanks to strong economic

growth and a real drop in unemployment, the PS retained power after the 10 October 1999 Assembly elections. Its program for the succeeding four years was to speed up Portugal's economic and bureaucratic modernization in order to attract investment and promote export-led growth.

The Socialist government's ability to manage a slowing economy deteriorated in Guterres' second term, and the PS suffered a major defeat in local elections held in December 2001. Guterres resigned, and early elections were held in March 2002. They resulted in a change in government, with the center-right PSD forming a coalition with the conservative Popular Party. PSD leader José Manuel Durão Barroso was named prime minister. Durão Barroso experienced his own troubles with the economy, as Portugal headed into a recession at the end of 2002 and into 2003. Portugal's economy was forecast to grow by 0.4% in 2003, the worst performance in the euro currency zone. As well, Portugal's budget deficit in 2002 was far above the 3% of GDP limit established by the EU's Growth and Stability Pact, putting it in jeopardy of punitive sanctions from the EU.

Portugal's overseas possession Macau was turned over to Chinese administration on 20 December 1999. Portugal supported independence for its former colony of East Timor; this was achieved in May 2002. Portugal took steps to normalize relations with Indonesia following the independence of East Timor.

Durão Barroso supported the US in its diplomatic and military efforts to disarm Saddam Hussein's regime in Iraq in 2003, with or without a UN Security Council resolution authorizing the use of force to remove the Iraqi regime. The prime minister faced criticism from within parliament and among the Portuguese electorate for his stance.

### 13 GOVERNMENT

A constitution made public on 9 April 1975 and effective 25 April 1976 stipulated that the Armed Forces Movement would maintain governmental responsibilities as the guarantor of democracy and defined Portugal as a republic "engaged in the formation of a classless society." The document provided for a strong, popularly elected president, empowered to appoint the prime minister and cabinet. This constitution was substantially revised in 1982 and later in 1989; the most important new provisions were the elimination of the military Council of the Revolution and the limitation of presidential power. The new government system is parliamentary.

According to the constitution as amended (further amendments were added in 1992, to accommodate the Maastricht Treaty on European Union; in 1997, to allow referendums; and in 2001, to facilitate extradition), the president is elected by popular vote for a five-year term. The president appoints the prime minister and, at the prime minister's proposal, a Council of Ministers. A Council of State advises the president. The main lawmaking body is the unicameral Assembly of the Republic, the members of which (230 in 2003) are directly elected to four-year terms, subject to dissolution. Both the next presidential and parliamentary elections are due to be held in 2006. Suffrage is universal from age 18.

### 14 POLITICAL PARTIES

Under the Salazar regime, although the constitution did not prohibit political activity, the National Union (União Nacional) was the only political party represented in the legislature. Candidates of the old Center parties, which had been active prior to 1926–28, were allowed to participate in national elections starting in 1932, although none were ever elected.

After the 1974 revolution, several right-wing parties were banned, and various left-wing parties that had functioned underground or in exile were recognized. Among these was the Portuguese Communist Party (Partido Comunista Português—

PCP), which was founded in 1921 and is Portugal's oldest political party. It is especially strong among industrial workers and southern farm workers. The government also recognized the Portuguese Socialist Party (Partido Socialista Português—PSP), founded in exile in 1973, and the Popular Democratic Party (Partido Popular Democrático—PPD), formed during the Caetano regime; both the PSP and the PPD favored the establishment of a Western European-style social democracy. Tied to the policies of the Caetano regime was the Social Democratic Center (Centro Democrático Social—CDS), founded in 1974, which held its first conference in January 1975 and became a target for left-wing disruptions. In June 1976, Gen. António Ramalho Eanes, the army chief of staff, who was supported by the major non-Communist parties, won election as Portugal's first president.

In 1979, the right-of-center Democratic Alliance (Aliança Democrática—AD) was formed by the Social Democratic Party (Partido Social Democrático—PSD), founded in 1974; the CDS; and the People's Monarchist Party (Partido Popular Monárquico—PPM). The leftist United People's Alliance (Aliança Povo Unido), also formed in 1979, included the People's Democratic Movement (Movimento Democrático Popular—MDP), dating from 1969, and the PCP.

The Republican and Socialist Front (Frente Republicana e Socialista—FRS), formed in 1980, consisted of the PSP, the Union of the Socialist and Democratic Left (União da Esquerda Socialista Democrática—UESD), founded in 1978, and Social Democratic Independent Action (Acção Social Democrata Independente—ASDI), founded in 1980. The People's Democratic Union (União Democrática Popular—UDP), dating from 1974, comprised political groups of the revolutionary left.

In October 1985, former President Eanes's centrist Democratic Renewal Party (Partido Renovador Democrático—PRD) entered the ballot for the first time, taking 18% of the vote. In 1991, the seats were distributed as follows: PSO, 135; PSP, 72; CDU, 17; Center Democrats, 5; National Solidarity, 1. The latter was formed in 1990 to address the needs of pensioners.

In the legislative elections of 10 October 1999, the seats were distributed as follows: PS, 114; PSD, 83; CDU, 17; CDS/PP, 15, and Left Bloc, 2. Antonio Manuel de Oliveira Guterres was reappointed prime minister. The first PS victory in October 1995 carried through to the presidential elections of 14 January 1996, when Jorge Sampaio was elected president, with 53.8% of the vote to Aníbal Silva's 46.2%.

Guterres ruled during a downturn in the global economy in his second term, and in December 2001 he resigned following a defeat for the PS in municipal elections. The PSD, led by José Manuel Durão Barroso, won 40.1% of the vote and took 105 seats in parliament in the 17 March 2002 elections, to the PS's 37.9% and 96 seats. The Popular Party won 8.8% of the vote and secured 14 seats; the PSD formed a coalition government with the PP. Also winning seats were the CDU (Unitarian Democratic Coalition, comprised of the Portuguese Communist Party and the Greens), 7% of the vote and 12 seats; and the Left Bloc (comprised of the communist Democratic People's Union, the Revolutionary Socialist Party, and the extreme left party Politics XXI), 2.8% of the vote and 3 seats.

### 15 LOCAL GOVERNMENT

Portugal is grouped into districts, including 18 on the mainland and the autonomous regions of the Azores and Madeira islands. Each district has a governor, appointed by the minister of the interior, and an assembly. There are more than 300 municipalities, subdivided into parishes.

### 16 JUDICIAL SYSTEM

Justice is administered by ordinary and special courts, including a constitutional court; the Supreme Court of Justice in Lisbon,

consisting of a president and some 60 judges; five courts of appeal, at Lisbon, Oporto, Coimbra, Évora and Guimarães; courts of first instance in every district; and special courts. The jury system was reintroduced in 1976, but it is used only when requested by either the prosecutor or the defendant.

The judiciary is independent and impartial. Citizens enjoy a wide range of protections of fundamental civil and political rights which are outlined in the constitution with specific reference to the Universal Declaration of Human Rights. An Ombudsman, elected by the Assembly of the Republic (legislature) to a four-year term, serves as the nation's chief civil and human rights officer.

The legal system is based on the civil law system. Portugal accepts compulsory jurisdiction of the International Court of Justice with reservations.

## 17 ARMED FORCES

As of 2002, the total armed forces of Portugal numbered 43,600 active personnel including 2,875 women. Reservists numbered 210,930 for all services. The army had 25,400 personnel with equipment including 187 main battle tanks. The navy of 10,800, including 1,580 marines, had two submarines, six frigates, and 28 patrol and coastal combatants. The air force of 7,400 was equipped with 50 combat aircraft. Paramilitary police and republican guards number 40,900. The US maintains a military presence with 770 troops. Portugal has air force personnel in São Tome, and participates in peacekeeping operations in six regions. Defense spending in 1999–00 was \$1.3 billion, representing 2.2% of GDP.

## 18 INTERNATIONAL COOPERATION

Portugal joined the UN on 14 December 1955 and participates in ECE and all the nonregional specialized agencies. The nation is one of the 12 original signatories to NATO, a member of the WTO and the Law of the Sea, and a member of OECD. It also has permanent observer status at OAS. Portugal began negotiating for entry into the EU in 1978; entry was granted officially in 1985. Portugal entered into the European economic and monetary union in 1999, and the euro entered into circulation in 2002.

## 19 ECONOMY

Manufacturing and construction together accounted for 29% of Portugal's GDP in 2001. The largest industries are clothing, textiles, footwear, and food processing, wood pulp, paper, and cork; metal working; oil refining; chemicals; fish canning; wine and tourism. Agriculture, forestry, hunting and fishing employed 12.5% of the work force in 2000 (down from 26.2% in 1971) but contributed about 4% of the GDP. The percent of the labor force in services rose from 39% in 1971 to 52.4% in 2000, accounting for about 65% of GDP. Traditionally, productivity has been hampered by low investment and a lack of machinery and fertilizers. The economy has experienced robust growth since 1993, however, primarily due to increased investment and domestic consumption, both in turn traceable to advantages Portugal has gained through its entry into the European Community in 1986. In 1986, Portuguese income was about 52% of the EU average; by 2002, GDP per capita on a purchasing power parity basis had risen to over 70% of the EU average.

From the end of 1973 through 1983, the energy crisis and insufficient liquidity jeopardized economic growth, which dropped still further following the overthrow of the Caetano regime in April 1974. GNP growth in 1974 fell to 2.3% from 8.1% in the previous year. The decline was caused by a sharp drop in new offers of investment and credit from abroad (investors feared rising Communist influence and government takeovers of private firms), coupled with a decline in tourism and

a massive increase in unemployment primarily resulting from the return of Portuguese settlers and soldiers from newly independent Angola. During the late 1970s, Portugal adopted an austerity program and succeeded in lowering inflation to 16.6% and increasing GDP growth to 5.5% in 1980. However, adverse interest and exchange rates and a severe drought during 1980–81 resulted in a resurgence of inflation (an estimated 22.5% in 1982) and sluggish economic growth (1.7% in 1981 and 2% in 1982).

In mid-1983, the Soares government implemented an IMF stabilization plan of drastic internal tightening, which brought steady economic improvement. The persistent current-account deficits ended in 1985, partially as a result of the decline in world oil prices and entry into the EC. The Silva government's economic liberalization emphasized competitiveness and accountability. From 1987 to 1999 Portugal was the net recipient of financial inflow from the EU of about \$27 billion, most disbursed through the European Regional Development Fund. The money was spent on infrastructural improvements, most notably the highway system. Through the 1990s, until the beginning of 2001, Portugal enjoyed strong economic growth generally above the EU average. The economy grew 4.2% in 1998, at 3.1% in 1999, and at 3.3% in 2000. Unemployment remains was at 5% in 1998, but then dropped to 4.5% in 1999 and then to 4% in 2000. Even as the growth slowed to 2.2% in 2001, unemployment in Portugal remained below most of its neighbors, at 4.2%. In 2002, growth is estimated to have slowed to 0.8% and unemployment increased to 4.7%. Inflation in Portugal has been moderate but growing, increasing from 2.4% in 1998 to 4.6% in 2000. Consumer prices rose 4.4% in 2002 and about 3.7% in 2002. The Socialist government pledged its dedication both to meeting the Maastricht monetary convergence criteria and to increasing social spending, including provision of a guaranteed minimum income. This policy bore fruit when Portugal qualified for the first round of entry into the European Monetary Union (EMU) in 1999. As of January 2002, the euro became Portugal's only official currency. The government's privatization program reduced the public sector for 7.5% of GDP and 2.6% of employment by the end of 1999 from 19.7% of GDP and 5.5% of employment in 1988.

The unofficial, or underground, economy is estimated at 20% of official GDP, about the same level as that of Spain and Italy.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Portugal's gross domestic product (GDP) was estimated at \$182 billion. The per capita GDP was estimated at \$18,000. The annual growth rate of GDP was estimated at 0.8%. The average inflation rate in 2002 was 3.7%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. Agriculture accounted for an estimated 4% of GDP, industry 29%, and services 68%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$3.179 billion or about \$317 per capita and accounted for approximately 3% of GDP. Worker remittances in 2001 totaled \$3.337 billion.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$8,223. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 1%. Approximately 29% of household consumption was spent on food, 7% on fuel, 2% on health care, and 19% on education. The richest 10% of the population accounted for approximately 28.4% of household consumption and the poorest 10% approximately 3.1%.

## 21 LABOR

The labor force in Portugal in 2000 totaled 5.1 million. Services employed 60%, industry 30% and agriculture 10% of the workforce. In 2002, the estimated unemployment rate was 4.7%.

Between 1974 and 1976, there was only one coordinating association of trade unions, the pro-Communist Intersindical Nacional; its monopoly was revoked in October 1976. In 1985, the Intersindical still represented the majority of organized labor. The pro-Socialist General Union of Workers of Portugal (União Geral dos Trabalhadores—UGT), founded in 1978, is a pluralist democratic federation affiliated with the International Confederation of Free Trade Unions and the European Trade Union Confederation. The government approves all collective bargaining contracts and regulates such matters as social insurance, pensions, hours of labor, and vacation provisions. Strikes are permitted and are commonly used and generally resolved quickly through negotiations.

A minimum wage was established in 1975; in 2001, the minimum monthly salary was \$305. However, most workers earn more than this amount. The maximum legal workday is 12 hours, with the workweek set at 40 hours with a minimum of 12 hours between workdays. Minimum standards of occupational safety and health are set by law, but they are not adequately enforced and workplace accidents do occur, particularly in the construction industry. The minimum working age is 16 years.

## 22 AGRICULTURE

In 1998, 28% of the land was considered arable. Of the 2.6 million ha (7 million acres), 74% was cultivated with seasonal crops and 26% was under permanent crops. In 2001, the gross agricultural product accounted for 4% of GDP. Estimates of agriculture production in 1999 included potatoes, 1,150,000 tons; tomatoes, 1,176,000 tons; corn, 1,092,000 tons; wheat, 400,000 tons; olives, 262,000 tons; rice, 159,000 tons; and rye, 52,000 tons. Production of olive oil reached 36,000 tons in 1999. Wine, particularly port and Madeira from the Douro region and the Madeira islands, is an important agricultural export; production totaled 679,000 tons in 1999, down from 1,137,000 tons in 1990. Portugal is the world's seventh-largest producer of wine, although Portugal's wines are mostly unknown internationally apart from port and rosé. Under the influence of EU policies, vineyard areas have been reduced in recent years. In 2001, the value of agricultural products imported by Portugal exceeded that of agricultural exports by \$2.56 billion.

According to government estimates, about 900,000 hectares (2,200,000 acres) of agricultural land were occupied between April 1974 and December 1975 in the name of land reform; about 32% of the occupations were ruled illegal. In January 1976, the government pledged to restore the illegally occupied land to its owners, and in 1977, it promulgated the Land Reform Review Law. Restoration of illegally occupied land began in 1978.

Agriculture is the main problem area of the economy; yields per hectare are less than one-third of the European average, with a severe drought in 1991/92 only exacerbating the problem. The situation has actually been deteriorating since the mid-1970s, with many yields falling and arable and permanent crop areas declining. By 1999, crop output was only 87% of what it had been on average during 1989–91. With the reform of the EU's Common Agriculture Policy (CAP), a significant reduction in the number of producers through consolidation (especially in the north) will result in the end of traditional, subsistence-like based agriculture.

## 23 ANIMAL HUSBANDRY

The Alentejo region is Portugal's grazing heartland. In 2001, Portuguese livestock population estimates included 5,578,000

sheep, 2,338,000 hogs, and 1,414,000 head of cattle. There were 623,000 goats, 130,000 donkeys, 50,000 mules, 17,000 horses, 35 million chickens, and seven million turkeys in 2001. Mules and donkeys, as well as horses and oxen, often provide draft power for the farms. The main districts for cattle are northern and north-central Portugal; most of the sheep, goats, and pigs are raised in the central and southern sections. In 2001, Portugal's meat production included an estimated 343,000 tons of pork, 310,000 tons of poultry meat, 316,000 tons of beef and veal, and 1,300 tons of mutton. Other estimates for 2001 included 1,923,000 of milk, 125,000 tons of eggs, 76,500 tons of cheese, and 24,500 tons of butter.

## 24 FISHING

Three main fields of activity make up the Portuguese fishing enterprise: coastal fishing, with sardines as the most important catch; trawl fishing on the high seas; and cod fishing on the Grand Banks, off Newfoundland. At the beginning of 1996, the Portuguese fishing fleet consisted of 12,317 vessels with 131,123 GRT. National fish landings totaled 116,875 tons in 2001. Dominant species are sardines, mackerel, and octopus. These three species accounted for nearly half the landings. Virtually all the total catch is sold fresh, but small amounts of sardines and octopus are frozen. The total catch fell from 375,413 tons in 1973 to 247,596 tons in 1983 but increased to 325,349 tons in 1991. The average annual catch during 1990–94 was 295,007 tons and 318,600 tons during 1995–99. The annual catch declined in 1995 because Portugal was affected by internationally-set limits (Total Allowable Catches) that restrict fishing access for certain species in the international waters of the North Atlantic and by EU fishing quotas. The fishing potential has also been affected by a reduction in the national fleet in association with EU fleet reduction incentives. The Portuguese fishing fleet was reduced by 40% during 1990–2000.

## 25 FORESTRY

With about 40% of the total land area forested, Portugal is an important producer of forestry products. The country is the world's leading producer of cork, ordinarily supplying about half the world output. Portugal is also an important producer of resin and turpentine. Roundwood production in 2000 was 9,450,000 cu m (333.6 million cu ft), with a sawn wood output of 1,427,000 cu m (50.4 million cu ft). Other commodities produced that year included wood pulp, 1,774,000 tons; paper and paperboard, 1,290,000 tons; and particleboard, 762,000 cu m (2.7 million cu ft). In 2000, timber and other forest product exports amounted to \$1,284 million. Wine stoppers account for 55% of cork export value. Cork demand has fallen in recent years, and production is limited by the botanical fact that a single tree can only be stripped once every nine years. Eucalyptus logs (the crux of the pulp industry) are exported as well; forestation of eucalyptus is a major national controversy, with opponents charging that it displaces traditional farmers and damages the soil and water table. Pine accounts for most lumber exports.

## 26 MINING

Portugal's mineral industry was modest, but the country was moderately rich in minerals. Portugal was the largest producer of mined copper in the EU, and beryl, dimension stone, ferroalloys, tin, and tungsten were also of international importance. Minerals were one of the country's dynamic industrial sectors, mainly because of the discovery and development of the Neves-Corvo copper and tin deposits. The Panasqueira mine was one of the world's largest producers of tungsten concentrates outside of China. Metalworking, oil refining, and chemicals were among the nation's leading industries in 2002, and chemicals ranked third among export commodities. Mining production in 2000 was at 90% of the 1990 level, higher than in 1997–1999, when output

was at 86, 92, and 90%, respectively, of 1990's level. Tungsten, tin, and iron ore were mined in the north, copper pyrites in the south, and anthracite and lignite in the central region.

In 2000, the output of copper ore (metal content) was 76,200 tons, down from 114,637 in 1998, a decline caused by labor problems. Output of tungsten was 743 tons, compared to 434 in 1999 and 1,036 in 1997; tin, 1,227 tons, down from 4,637 in 1996; and iron ore and concentrates, 11,800 tons, up from 6,800 in 1998. The rich copper and tin deposit at Neves-Corvo (51% government owned) has helped rejuvenate the Portuguese mining industry. It had a capacity of 500,000 tons per year of copper and 5,000 tons per year of tin, and a mine life of 20 years. Avocet Mining PLC commissioned a new subvertical shaft at its Panasqueira mine to access 4.7 million tons of ore resources with an in situ grade of 0.33% tungsten oxide. Portugal also produced white arsenic, manganese, silver, uranium, anhydrite, hydraulic cement, refractory clays, diatomite, feldspar, gypsum, kaolin, hydrated lime, quicklime, lepidolite (a lithium mineral), nitrogen, pyrite and pyrrhotite (including cuprous), rock salt, sand, soda ash, sodium sulfate, stone (basalt, dolomite, diorite, gabbro, granite, both crushed and ornamental, graywacke, calcite marl limestone, marble, ophite, quartz, quartzite, schist, slate, and syenite), sulfur, and talc. Marble, mainly from the Evora District, was the most valuable of the stone products. A new deposit, at the Aljustrel mine/mill complex, encompassing five massive sulfide deposits, could be brought into production relatively quickly as a low-cost zinc producer; the most significant deposit, at Feitais, had 12 million tons of proven and probable minable zinc reserves with an average grade of 5.67% zinc, 1.7% lead, and 64 grams per ton of silver, and 1.6 million tons of proven and probable copper ore reserves with an average grade of 2.2% copper, 0.97% zinc, and 14 grams per ton of silver. Gold exploration activities continued in the Jales-Tres Minas District, which included the ancient Jales mine, east of Oporto.

The southern Iberian Peninsula, known as the Iberian Pyrite Belt (IPB), was one of the most mineralized areas of Western Europe and was geologically very complex. The IPB's internationally well-known volcanogenic massive sulfide (VMS) deposits, in the southwestern part of the peninsula, dated to the Upper Devonian and the Lower Carboniferous ages. Clusters of deposits occurred around individual volcanic centers, and the largest individual deposit located to date may have held an original reserve of 500 million tons, out of IPB's total resource of 1,725 million tons. Sulfide deposit resources in 1999 were 1,100 million tons.

Most of the large mineral-related companies were owned or controlled by the government. The government continued its privatization program and was proceeding with legislation to privatize many public companies, part of a broader program to make the economy more market driven. The structure of the mineral industry could change in the near future because of significant mining exploration by several foreign companies, particularly for copper, gold, kaolin, lead, lithium, pyrites, and tin. The IPB was the prime area for exploration activity, and had an above-average potential for success based on an unusually high number of large VMS deposits.

## 27 ENERGY AND POWER

Between 1951 and 1976, 16 hydroelectric plants were constructed in Portugal. Total production of electric power (including the Azores and Madeira) was 41.4 billion kWh in 2000 (compared with 6.2 billion kWh in 1968); 70% was from fossil fuels, 25.9% from hydroelectric sources, and the rest from other renewable sources. Consumption of electricity in 2000 was 41.1 billion kWh, the lowest per capita consumption in the European Union (EU). In 2001, Portuguese power stations had a net capacity of 10,306,000 kW. Portugal lacks adequate fuel resources, and large quantities of coal and oil are imported,

especially as the electricity sector is switching away from oil. There are no petroleum or gas reserves and no nuclear power plants in Portugal. In 2001, crude oil consumption was 339,000 barrels per day. Natural gas consumption was inaugurated in 1997, with the connection of the Iberian Peninsula to Algeria via the Maghreb-Europe pipeline. In 2000 it totaled 2.3 billion cu m (81 billion cu ft). The Germunde Mine at Castelo de Paiva, Portugal's only coal mine, closed in 1994 because of high production costs and difficult mining conditions.

In 2001 Portugal and Spain signed an agreement to completely integrate their power markets by 2003.

## 28 INDUSTRY

Industry (including construction, energy, and water) employs about one third of the labor force, and its contribution to the national economy has grown significantly in recent decades. It accounted for 29% of GDP in 2001. Industrial production in 2001 had maintained a 2.6% growth rate over 2000. Portuguese industry is mainly light; the development of heavy industry has been hampered by a shortage of electric power. Textiles—especially cottons and woollens—are the oldest and most important of Portugal's manufactures. Other principal industries are automotive assembly, electronics, glass and pottery, footwear, cement, cellulose and paper, rubber and chemicals, cork and cork products, and food industries (mainly canned fish). Small artisan industries, such as jewelry and homespun and hand-embroidered clothing, are of local importance.

Manufactured goods in the early 2000s included cement, wood pulp, crude steel for ingots, paper and paperboard, and radios and televisions. In 2003, footwear, automobiles, and textiles were the central industries. Portugal produced 239,719 automobiles in 2001, a 3% decrease from 2000. It produced 4,380 heavy trucks in 2000. The construction sector was attracting a high degree of investment in 2001.

## 29 SCIENCE AND TECHNOLOGY

In 1996, Portugal had 18 scientific and technological learning societies, and 20 scientific and technological research institutes. The leading scientific academy is the Lisbon Academy of Sciences, founded in 1779. In 1996, Portugal had 27 universities and colleges offering courses in basic and applied sciences. Attached to the University of Lisbon is the Museum and Laboratory of Mineralogy and Geology, founded in 1837. In 1987–97, science and engineering students accounted for 36% of university enrollment. Total government expenditure on research and development was 0.6% of GNP in 1987–97; 1,182 scientists and engineers and 167 technicians per million people were engaged in research and development.

## 30 DOMESTIC TRADE

Lisbon and Porto are the two leading commercial and distribution centers. Larger retail stores, shopping malls, and hypermarkets have become well-established in many areas. Franchising has also gained ground, particularly in the clothing and fast-food markets. Direct marketing through television and mail order sales has grown considerably over the past few years. The most common advertising media are newspapers and outdoor billboards; movie theaters also carry advertisements.

The usual business hours are from 9 AM to 1 PM and from 3 to 7 PM, Monday through Friday, with a half-day on Saturday; some firms close on Saturday. Banking hours are 8:30 AM to 12 noon and 1 to 2:30 PM, Monday through Friday. An increasing number of shopping centers in urban areas have more flexible hours

## 31 FOREIGN TRADE

Portugal's foreign trade balance has regularly shown a heavy deficit, which it finances through net receipts from tourism,

remittances from Portuguese workers abroad, and net transfers from the EU.

The major export commodities of Portugal are clothing and footwear (11.6%), motor vehicles (9.1%), and textiles (6.9%). Other exports include electrical distributing equipment (4.1%), paper products (3.2%), and refined petroleum products (1.9%).

In 2000 Portugal's imports were distributed among the following categories:

Consumer goods	13.8%
Food	9.9%
Fuels	10.4%
Industrial supplies	28.8%
Machinery	18.9%
Transportation	18.1%
Other	0.1%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Spain	4,702	10,348	-5,646
Germany	4,397	5,483	-1,086
France	3,087	4,241	-1,154
United Kingdom	2,649	2,393	256
Belgium	1,446	1,218	228
United States	1,409	1,181	228
Netherlands	1,031	1,833	-802
Italy	968	2,851	-1,883
Sweden	404	498	-94
Japan	110	980	-870

### 32 BALANCE OF PAYMENTS

Despite chronic trade deficits, Portugal until 1973 managed to achieve a balance-of-payments surplus through tourist revenues and remittances from emigrant workers. With the economic dislocations of 1974, net tourist receipts fell 30%; the trade deficit almost doubled; and emigrant remittances stagnated—thus, the 1973 payments surplus of \$255.7 million became a \$647.7 million deficit in 1974. Emigrant remittances grew steadily between 1976 and 1980, when they peaked at \$2,946 million. Because of this, Portugal's balance of payments improved and in 1979 even showed a surplus of \$761 million. Subsequently, however, increasing trade deficits resulted in balance-of-payments deficits that reached \$3.2 billion in 1982. By 1985, however, the deficit had become a surplus of \$0.4 billion, which rose to \$1.1 billion in 1986; the chief reason was the weakening dollar, which boosted the value of tourism earnings and remittances. The 1990 Portuguese external payments surplus stabilized at the previous year's record level of nearly \$4 billion. After a few years of surplus boom, mainly due to the enormous influx of foreign capital and transfers to Portugal following EC membership in 1986, measures were taken in July 1990 to restrict foreign credit and investment thereby helping the authorities get better control over monetary aggregates. These measures, along with the hiatus in international investment caused by the Gulf crisis and some deterioration in the merchandise trade account contributed to halting the growth of the total nonmonetary balance.

The country's large current account deficit was forecast to narrow from 7.5% in 2002 to 4.2% in 2004. Although foreign direct investment (FDI) in new manufacturing projects, such as the automotive and electronics sectors, increased in the 1990s, in the early 2000s FDI flowed to lower-cost manufacturing locations in Central and Eastern Europe, away from Portugal.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Portugal's exports was \$25.9 billion while imports totaled \$39 billion resulting in a trade deficit of \$13.1 billion.

The International Monetary Fund (IMF) reports that in 2001 Portugal had exports of goods totaling \$25.8 billion and imports totaling \$38.8 billion. The services credit totaled \$8.79 billion and debit \$6.19 billion. The following table summarizes Portugal's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>-9,959</b>
Balance on goods	-12,979
Balance on services	2,594
Balance on income	-3,054
Current transfers	3,481
<b>Capital Account</b>	<b>1,067</b>
<b>Financial Account</b>	<b>10,386</b>
Direct investment abroad	-7,874
Direct investment in Portugal	5,945
Portfolio investment assets	-6,430
Portfolio investment liabilities	8,405
Other investment assets	-4,743
Other investment liabilities	14,827
<b>Net Errors and Omissions</b>	<b>-642</b>
<b>Reserves and Related Items</b>	<b>-852</b>

### 33 BANKING AND SECURITIES

All 22 banks in Portugal, except for three foreign-owned ones (Banco do Brasil, Credit Franco-Portugais, and the Bank of London and South America), were nationalized in 1975. A 1983 law, however, permitted private enterprise to return to the banking industry. The Bank of Portugal, the central bank (founded in 1846), functions as a bank of issue, while the European Central Bank controls monetary policy.

During the late 1990s, Portugal's banking industry underwent significant restructuring due to foreign investment and consolidation. A major series of consolidations in 1996 left Banco Comercial Portugeuês (BCP), Banco Pinto and Sotto Mayor, and Banco Portugeuês de Investimento as the three largest private banks. Further consolidation came in 1999 when Spain's Banco Santander Central Hispano (BSCH) merged with Champalimaud. Fearing increased Spanish influence in the Portuguese banking industry, the Portuguese government sought to block the deal and the dispute appeared headed for the European Court. Ultimately, Portugal's finance minister, Joaquim Pina Moura, forged a compromise in which BSCH acquired two banks in the Champalimaud group.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$47.0 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$111.7 billion.

Portugal's two stock exchanges, located in Lisbon and Oporto, were closed after the coup of April 1974. The Lisbon exchange reopened in 1976, and the Oporto exchange in 1981. In January 1992 the market was split into three tiers, of which the first is the major liquid market: this included the 11 firms whose shares are traded regularly and which have a minimum market capitalization of €500 million. Trading outside the stock exchanges is still widespread. Into the late 1990s trade on the exchange continued to grow as continued privatization led to greater amounts of Initial Public Offerings (IPOs).

### 34 INSURANCE

Portugal's domestic insurance companies were nationalized in 1975. Foreign companies were required to accept government representatives among their directors. A new law, approved in 1983, allowed the private sector to reenter the domestic insurance industry. Almost all Portuguese companies sell life and nonlife insurance; some specialize in reinsurance only. In the wake of the reprivatization of the insurance industry, many insurance

companies have sought alliances with banks. This position, in turn, serves as an impediment to new entrants into the insurance field, particularly from foreign countries. However, the market is opening up and brokers from any European Union (EU) country can operate in Portugal. Third-party auto insurance and workers' compensation are compulsory in Portugal.

### 35 PUBLIC FINANCE

Portugal's budgets (accounting for the effects of loans and transfers) have been in deficit since 1974. Major factors contributing to the deficits included spending on health and education programs, funding for major public investment projects, and large state-owned enterprise payrolls. To finance the deficit, the government issued bonds in the domestic market, which also serves the monetary policy purpose of absorbing excess liquidity. The government's objective to join the Economic and Monetary Union (EMU) was achieved in 1999. Since then, monetary policy responsibilities have been absorbed by the European Central Bank. Public debt exceeded 3% of GDP in 2001, exceeding EU limits and opening the country up to sanctions from the rest of the EU.

The US Central Intelligence Agency (CIA) estimates that in 2001 Portugal's central government took in revenues of approximately \$45 billion and had expenditures of \$48 billion. Overall, the government registered a deficit of approximately \$3 billion. External debt totaled \$13.1 billion.

The following table shows an itemized breakdown of government revenues. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	44,999
Tax revenue	81.9%	36,843
Non-tax revenue	8.9%	3,994
Capital revenue	0.7%	337
Grants	8.5%	3,826

### 36 TAXATION

The national corporate tax rate in Portugal in 2003 was 30%, down from 34% in 1999, but the effective rate fell from 37.4% to 33% because municipalities are allowed to impose a corporate income tax up to 10% of the national rate. Most municipal corporate tax rates have therefore fallen from 3.4% to 3% with the decrease in the national rate. Reform legislation in 2000 had originally targeted a reduction of the national rate to 28% by 2003, but this was delayed. Allowable deductions in calculating taxable corporate income include depreciation, interest payments, executives' salaries, and royalties. Capital gains are taxed at 30%. Dividends paid to parent companies by subsidiaries (owned at least 25% by the payee) are excluded from taxable income to avoid double taxation. Otherwise dividends are taxed at general income tax rates.

The progressive personal income tax schedule has six bands, not including a tax-exempt base. The schedule bands for 2003 were 15% (up to €4,100); 14% (on the next increment of income to €6,201); 24% (on the next increment to €15,375); 34% (on the next increment to €35,363); 38% (on the next increment to €51,251); and 40% (on the increment of income above €15,375). Social security taxes amount to 23.75% of nominal income. There are also taxes municipal taxes on the value of real estate.

The main indirect tax is Portugal's value-added tax (VAT) introduced 1 January 1986 with a standard rate of 16%, which was raised to 17% as of 1 January 1995 and to 19% as of 6 May 2002. There is also a reduced rate of 5% (applied to basic foodstuffs, water supplies, books, newspapers and periodicals, social housing, some medical equipment and drugs, hotel accommodations, repair and domestic services); an intermediate

"parking" rate of 12% (applied to some foodstuffs, catering, and some fuels and lubricants); and exemptions from VAT (for social services, some medical and dental services, waste collection and disposal, transportation services, gold transfers to the central bank, and cremation.). For the Azores and Madeira, the standard VAT rate is 12%, the reduced rate 4% and the parking rate 8%. Other transactions taxes include stamp duties and transfer fees.

### 37 CUSTOMS AND DUTIES

Portugal uses the Harmonized Nomenclature and Classification System (HS) to organize imports into tariff categories. Almost all tariffs are levied on an ad valorem basis according to the EU Customs Code, excepting luxury goods and petroleum, which have special higher rates. Portugal adheres to all EU trade policies, including multilateral trade agreements, and conforms to WTO regulations. It also levies a value-added tax (VAT) of up to 17% on all imports, although the VAT on imports from EU countries is not collected until the product is sold.

### 38 FOREIGN INVESTMENT

As a member of the European Union, Portugal abides by the investment rules that govern the rest of the union. New foreign investment legislation was enacted in 1986. The Institute of Foreign Investment (ICEP) is the supervising agency. Foreign investment is permitted in all sectors except power production, ports, air and rail services, and the arms industry. Even in these areas, however, deregulation is under way. The foreign investment code contains liberal profit remittance regulations and tax incentives.

Foreign direct investment (FDI) inflows in Portugal averaged about \$2 billion per year in 1992–95, or 1.6% of GDP. Main investing countries are the United Kingdom, Spain, and France. The financial sector accounted for about 60% of all new foreign investment. In 1998, FDI inflows reached \$3.1 billion, up from \$2.5 billion in 1997, but fell to \$1.2 billion in 1999. FDI inflows soared to \$6.4 billion in 2000, and were still above \$6 billion in 2001, despite the global economic slowdown.

### 39 ECONOMIC DEVELOPMENT

In 1975, radical economic transformations were accomplished through a series of decrees that nationalized the domestically owned parts of major sectors of the national economy. These decrees affected the leading banks, insurance companies (representing 99% of insurance companies' capital), petroleum refineries, the transportation sector, the steel industry, and eventually Portugal's leading privately owned industrial monopoly, Companhia União Fabril. At the same time, large-scale agrarian reform measures led to expropriation of many of the country's privately owned large landholdings; other holdings were seized illegally by peasants. In an attempt to stimulate agricultural production, the government decreed a 30% reduction in the price of fertilizer to farm workers and small and medium farmers. When the nationalization and agrarian reform measures met with only limited success, partly because of liquidity problems, an emergency austerity plan was approved by the Council of Ministers in October 1975. The program included wage and import controls and the reduction of subsidies on consumer goods.

As a result of Portugal's entry into the EC (now EU), the highly protected, unresponsive, and inefficient economy is being transformed. State intervention is being reduced, and the physical infrastructure is being modernized. Privatization began in 1989, with the share of gross domestic product (GDP) for non-financial public enterprises reduced from 17.9% in 1985 to 10.7% in 1991. In 1992, \$3.6 billion was raised as banks, insurance companies, and a 25% interest in Petrogal—the state oil company—were sold. The government estimated that privatized

companies would represent half of stock market capitalization by the end of 1994.

In 1996 and 1997, a series of important investments and acquisitions were made by companies such as Sonae and Jernimo Martins, Portugal's leading retail distributors; Cimpor, a cement producer; and Portugal Telecom and Electricidade de Portugal, the last of which was privatized. The big banks were developing new overseas operations as well. The best indicator of Portugal's economic progress was Portugal's acceptance into the European Monetary Union in 1999.

During the 1990s and into the 2000s, the economy grew at rates well above EU averages; however, growth slowed in 2002–03, and fell below the euro-area average for the first time in close to a decade. In 2002, the external current account deficit remained one of the largest (in relation to GDP) among industrialized countries. The unemployment rate also increased sharply. Nonetheless, an inflow of capital funds has financed infrastructure projects.

#### 40 SOCIAL DEVELOPMENT

The government-run social security system provides old-age, disability, sickness, and unemployment benefits, family allowances, and health and medical care. The system is funded by payroll contributions from employers and employees. The government subsidizes social pensions for those persons not employed. Retirement is set at age 50 for miners, age 55 for fishermen and seamen, and age 65 for other professions. Medical benefits are provided to all residents, and cash sickness and maternity benefits are provided to employees. Maternity benefits of 100% of earnings and benefits are paid for 120 days for all employed persons. Paternity and adoption benefits are also available. There is a income based family allowance, a special education allowance, and a funeral grant.

Women have full rights and protections under both the constitution and civil code. According to law, women must receive equal pay for equal work. In practice, however, a salary gap still exists between men and women. Spousal abuse and other violence against women are widespread problems and remain underreported. Sexual harassment in the workplace is considered a crime, but only if committed by a superior.

Immigrants from Portugal's former African colonies face social prejudice and discrimination. There were reports in of right-wing groups carrying out racially motivated attacks against immigrants and other non-ethnic Portuguese.

Human rights are generally respected in Portugal. Prison conditions are poor, but the government is engaging in dialogue with human rights organizations on this and other issues.

#### 41 HEALTH

The public health care sector is by far the largest. As of 1993, the country planned to construct 12 new hospital districts, 84 health centers, and 5 technical schools for nurses, and to enlarge or remodel several hospital centers, hospital districts, and maternity wards. The Santa Maria Hospital in Lisbon is the largest hospital in Portugal. The number of physicians in Portugal grew steadily throughout the 1990s, to an estimated 29,000 by the end of the decade. Of this number, 35% were general practitioners. In 1996 there were a total of 39,212 hospital beds in the country, of which roughly three-fourths were located in public hospitals. As of 1999, there were an estimated 3.2 physicians and 4 hospital beds per 1,000 people. Also in 1999, total health care expenditure was estimated at 7.7% of GDP.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 11.5 and 10.2 per 1,000 people. In 1994, 66% of married women (ages 15 to 49) were using contraception. The infant mortality rate decreased from 61 to 6 per 1,000 live births between 1968 and 2000. Average life expectancy in 2000 was 76 years.

The leading natural causes of death are circulatory disorders, cancer, and respiratory disorders. The incidence of tuberculosis in 1999 was 53 per 100,000 people. In 1997, children up to one year of age were vaccinated against diphtheria, pertussis, and tetanus, 95%, and measles, 99%.

In 1994, there were 42,698 deaths related to cardiovascular disease. The cancer and heart disease rates in Portugal are well below the industrialized countries average. The likelihood of dying after age 65 of heart disease was 182 in 1,000 for men and 187 in 1,000 for women in 1990–93. As of 1999, the number of people living with HIV/AIDS was estimated at 36,000 and deaths from AIDS that year were estimated at 280. HIV prevalence was 0.7 per 100 adults. In 1994, 38% of males and 15% of females over 15 smoked. Tobacco consumption has increased from 1.8 kg (4.0 lbs) in 1984–86 to 2.0 kg (4.4 lbs) a year per adult in 1995.

#### 42 HOUSING

According to the 2001 census, Portugal had 5,054,922 dwelling units. In May 1993, the government initiated a \$2 billion program designed to clear urban slums, which included the construction of 20,000 low-income units in Lisbon by the year 2000.

#### 43 EDUCATION

Education has been compulsory since 1911. For the year 2000, adult illiteracy was estimated at 7.8% (males, 5.2%; females, 10.0%). Primary level education, which lasts for six years, is compulsory. Secondary level education is in two stages of three years. In 1996, primary schools enrolled 867,253 pupils. At the secondary level during 1996, there were 947,478 pupils. The pupil-teacher ratio at the primary level was 13 to 1 in 1999.

Coimbra University, founded in 1290, is Portugal's oldest institution of higher learning, and the universities of Lisbon and Porto are two of the largest. In 1996, total enrollment in institutions of higher learning was 319,525. There are also art schools, music schools, and a school of tropical medicine. Approximately 11.7% of the annual government budget was spent on education in the latter part of the 1990s. As of 1999, public expenditure on education was estimated at 5.7 % of GDP.

#### 44 LIBRARIES AND MUSEUMS

The leading libraries of Portugal are the National Library, founded in 1796 (about 2.3 million volumes) and the Library of the Academy of Sciences (400,000) in Lisbon, the University Library in Coimbra (one million), and the Municipal Library in Porto (1.27 million). In 1997 the country had 168 public libraries with 4.8 million volumes.

There are some 300 museums in Portugal. Most feature exhibits relating to Portuguese history. Lisbon has the National Museum of Ancient Art, the Museum of Decorative Arts, the Calouste Gulbenkian Museum, and the Center for Modern Art, as well as the National Museum of Natural History. The Abbey of the Friars of St. Jerome in Belém and the Battle Abbey in Batalha contain some of the finest examples of Portuguese art. There are dozens of municipal ethnographic and historic museums, as well as many finely restored castles and manors.

#### 45 MEDIA

The domestic telegraph and telephone systems are wholly government-operated. In 1998 there were 5.3 million main line telephones in Portugal with 3 million mobile cellular phones. Direct radiotelephone service connects Portugal with its former and current overseas provinces in Africa and Asia. The government broadcasting network, Radiodifusão Portuguesa, and Radio Renascença, a religious network, operate AM and FM stations. The state-owned television network, Radiotelevisão Portuguesa, offers color broadcasts on two channels. In 1998, there were 47 AM and FM 172 radio stations, as well as 62



television stations. In 2000, there were 304 radios and 630 television sets for every 1,000 people. The same year, there were about 299 personal computers in use for every 1,000 people, with 16 Internet service providers serving about 2 million users in 2001.

During the factional struggles of 1975, the press became a battleground between Communists and other left-wing factions. The most noteworthy episode was the takeover of the *Socialist República* by Maoist printers in May 1975. Communist influence in the press was abruptly curtailed after the nation's press was closed down by the new center-left coalition government in November 1975 and subsequently reorganized. Nearly all the newspapers had reappeared by the end of the year, in more moderate guises. In 1976, the government nationalized several newspaper publishing groups. The circulations of state-owned newspapers decreased during the late 1970s. The constitution of 1976 guaranteed freedom of the press. The principal daily newspapers (with their estimated 2002 circulations) include the following:

	AFFILIATION	CIRCULATION
LISBON		
<i>Correo da Manhã</i>	Independent	85,000
<i>Diário de Notícias</i>	Communist	75,560
<i>Publico</i>	NA	75,000
<i>Diário Popular</i>	Leftist	62,000
<i>A Capital</i>	Leftist	40,000
OPORTO		
<i>Jornal de Notícias</i>	Leftist	90,000
<i>Comercio do Porto</i>	Moderate	30,300
<i>OPrimeiro de Janeiro</i>	Conservative	20,200

The weekly paper *Expresso* has a circulation of 160,000.

#### 46 ORGANIZATIONS

Under the Salazar and Caetano regimes, the cooperative movement was generally superseded by state-controlled groups called *juntas nacionais*. The principal current organizations are syndicates, the majority of which are linked to the national trade union confederation; residents' commissions; workers' commissions; and popular assemblies. Many of these associations, particularly in rural areas, are involved in local community improvement projects as well as political and cultural activities. There are four chambers of commerce and three main industrial organizations, the oldest of which, the Industrial Association of Porto, dates from 1849.

The Academy of Sciences Lisbon is primarily a scholarly and research organization. National youth organizations include Association of Young Farmers of Portugal, Communist Youth of Portugal, International Friendship League of Portugal, Monarchist Youth of Portugal, the Scout Federation of Portugal, and YMCA/YWCA. There are several sports associations in the country. The Kiwanis and Lion's Clubs also have active programs. Amnesty International and the Red Cross have national chapters.

#### 47 TOURISM, TRAVEL, AND RECREATION

Portugal's historic cities—Lisbon, Porto, Coimbra, and others—offer numerous museums, old churches, and castles. Most villages still celebrate market days with dances and other festivities. There are more than 800 km (500 mi) of beaches. The Portuguese bullfight (differing from the Spanish variety in that the bulls are not killed) is a popular spectator sport; the season lasts from Easter Sunday to October. Soccer is popular as both a participant and a spectator sport. Generally, a valid passport is required for entry, but air and sea travelers with an onward ticket may stay in Portugal for up to 10 days without a visa.

Tourism has become a major contributor of foreign exchange earnings (\$5.2 billion in 2000) and a stimulus to employment and

investment in the hotel industry and related services. The number of tourists was 12,096,680 in 2000. That year there were 97,709 hotel rooms with 222,958 beds and a 42% occupancy rate.

The daily cost of staying in Portugal, according to 2001 US government estimates, was between \$97 and \$165, with some rates varying by season.

#### 48 FAMOUS PORTUGUESE

During Portugal's golden age, the 15th and 16th centuries, the small Portuguese nation built an overseas empire that stretched halfway around the globe. Prince Henry the Navigator (Henrique Navegador, 1394–1460) laid the foundations of the empire. Among the leaders in overseas exploration were Bartholomeu Dias (1450?–1500), the first European to round the Cape of Good Hope; Vasco da Gama (1469–1524), who reached India and founded Portuguese India in 1498; and Pedro Alvares Cabral (1460?–1526), who took possession of Brazil for Portugal in 1500. Ferdinand Magellan (Fernão de Magalhães, 1480?–1521) led a Spanish expedition, the survivors of which were the first to sail around the world, although Magellan himself was killed after reaching the Philippines. Afonso de Albuquerque (1453–1515) was foremost among the builders of Portugal's Far Eastern empire.

Famous literary figures of the golden age include the historians Diogo do Couto (1542–1616) and João de Barros (1496–1570); Portugal's greatest writer, Luis Vas de Camões (1524?–80), the author of *Os Lusíadas*, the Portuguese national epic, and of lyric and dramatic poetry; the dramatists Gil Vicente (1465?–1537?) and Francisco de Sá de Miranda (1482–1558); the poets Bernardim Ribeiro (1482?–1552) and Diogo Bernardes (1532?–96?); and the travel writer Fernão Mendes Pinto (1509–83). Portugal's leading painter was Nuno Gonçalves (fl.1450–80).

Among the noted Portuguese of more recent times are Sebastião José de Carvalho e Mello, marquis de Pombal (1699–1782), the celebrated prime minister of King Joseph Emanuel (José Manuel, 1715–77); the novelists Camilo Castelo Branco, viscount of Correia-Botelho (1825–90), and José Maria Eça de Queirós (1843–1900); the poets João Baptista da Silva Leitão, viscount of Almeida-Garrett (1799–1854), Antero Tarquinio de Quental (1842–91), João de Deus Nogueira Ramos (1830–96), Teófilo Braga (1843–1924), and Abílio Manuel Guerra Junqueiro (1850–1923); the satirist José Duarte Ramalho Ortigão (1836–1915); and the painter Domingos António de Sequeira (1768–1837). António Caetano de Abreu Freire Egas Moniz (1874–1955) won the Nobel Prize in physiology in 1949.

António de Oliveira Salazar (1889–1970), prime minister for more than 30 years, was Portugal's best-known modern leader. Gen. (later Marshal) António Sebastião Ribeiro de Spínola (1910–96) played a key role in the revolution of April 1974. Gen. António dos Santos Ramalho Eanes (b.1935) became president in 1976 and was reelected in 1980. The main political leaders of the late 1970s and early 1980s were the Socialist Mário Alberto Nobre Lopes Soares (b.1924), prime minister in 1976–78 and 1983–85 and became president in 1986 and was reelected in 1991; Francisco Sá Carneiro (1934–80), a leader of the Social Democratic Party and prime minister in 1979–80.

#### 49 DEPENDENCIES

Between 1974 and 1976, all of Portugal's overseas possessions in Africa—including Angola, the Cape Verde Islands, Portuguese Guinea (now Guinea-Bissau), Mozambique, and São Tomé and Príncipe—became independent countries in accordance with the Armed Forces Movement's decolonization policy. After the Portuguese withdrew from East Timor, in the Indonesian archipelago, the former colony was invaded by Indonesian forces in 1975 and became a province of Indonesia in 1976; East Timor became an independent nation in 2002. Macau, on the south

coast of China, was a “Chinese territory under Portuguese administration” from 1975–99.

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# ROMANIA

Romania

**CAPITAL:** Bucharest (Bucuresti)

**FLAG:** The national flag, adopted in 1965, is a tricolor of blue, yellow, and red vertical stripes.

**ANTHEM:** *Trei culori (Three Colors)*.

**MONETARY UNIT:** The leu (L) is a paper currency of 100 bani. There are coins of 25 bani and 1, 3, 5, 10, 20, 50, and 100 lei, and notes of 10, 25, 50, 100, 200, 500, 1,000, and 5,000 lei. L1 = \$0.0000299 (or \$1 = L33,409) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; International Labor Day, 1–2 May; Liberation Day, 23 August; National Day, 1 December; Christmas Day, 25 December.

**TIME:** 2 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Situated in eastern Europe, north of the Balkan Peninsula, Romania has a total area of 237,500 sq km (91,699 sq mi). Comparatively, the area occupied by Romania is slightly smaller than the state of Oregon. The dimensions of the country are 789 km (490 mi) E–W and 475 km (295 mi) N–S. It is bounded on the N and NE by Ukraine and Moldova, on the E by the Black Sea, on the S by Bulgaria, on the SW by Serbia and Montenegro, and on the W by Hungary, with a total boundary length of 2,733 km (1,698 mi), of which 225 km (140 mi) is coastline. Romania's capital city, Bucharest, is located in the south central part of the country.

## <sup>2</sup>TOPOGRAPHY

The backbone of Romania is formed by the Carpathian Mountains, which swing southeastward and then westward through the country. The southern limb of this arc-shaped system is known as the Transylvanian Alps, whose compact, rugged peaks rise to 2,543 m (8,343 ft) in Mt. Moldoveanu, Romania's highest. The eastern Carpathians have an average elevation of 1,000 m (3,300 ft) and exceed 1,900 m (6,200 ft) only in the highest ranges. On the eastern and southern fringes of the Carpathian arc are the low plateaus and plains of Walachia, extending to the Prut River (Moldovan border) in the east and to the Danube (Bulgarian border) in the south. On the inside of the Carpathian arc is the Transylvanian Basin, a hilly region dissected by the wide, deep valleys of the Mures and Somes rivers. The Dobruja, located between the lower Danube and the Black Sea, is an eroded plateau with average elevations of 400 to 600 m (1,310–1,970 ft). Except for the low-lying, swampy Danube Delta in the north, the Black Sea coast of the Dobruja is steep, facing the sea with almost vertical cliffs.

Romania is susceptible to severe earthquakes. An earthquake that struck Romania on 4 March 1977 destroyed or severely damaged some 33,000 buildings and left more than 34,000 families homeless. The shock, measuring 7.2 on the open-ended

Richter scale, was the most severe in Europe since a series of shocks in October–November 1940, also in Romania.

## <sup>3</sup>CLIMATE

Romania's climate is of the moderate humid continental type, exposed to predominant northerly cold winds in the winter and moderate westerly winds from the Atlantic in the summer. Average January temperatures range from -4°C to 0° C (25–32°F). During the summer, the highest temperatures are recorded in the Danube Valley (24°C/75°F). Temperatures decrease toward the high elevations in the northwest and toward the southeast, where the Black Sea exerts a moderating influence. Precipitation decreases from west to east and from the mountains to the plains, with an annual average of between 100 and 125 cm (about 40 and 50 in) in the mountains and about 38 cm (15 in) in the delta.

## <sup>4</sup>FLORA AND FAUNA

Natural vegetation consists mainly of steppelike grasslands in the Moldavian and Walachian lowlands, with tall, deep-rooted grasses in the more humid sections and short, shallow-rooted grass in the drier parts. The Carpathian system is covered with forests, with deciduous trees at lower elevations and conifers at altitudes above 1,070–1,220 m (3,500–4,000 ft). Alpine meadows occupy the highest parts of the mountains. Wild animals, including the black chamois, Carpathian deer, wolves, hares, marten, brown bear, lynx, boar, and fox, have sought refuge in the sparsely inhabited and forested Carpathians. Water birds flourish in the Danube Delta, and sturgeon abound in the waters of the lower Danube. Carp, bream, and pike populate the lakes; dace, barbel, and trout are found in rivers and streams.

## <sup>5</sup>ENVIRONMENT

Rapid industrialization since World War II has caused widespread water and air pollution, particularly in Prahova County, an oil-refining region. The nation has 49 cu km of renewable water sources, with about 59% used to support farming and 33% used for industrial purposes. Romania's cities produce on average 3.0 million tons of solid waste per year.

Air pollution is heaviest in the nation's cities, where industry produces hazardous levels of sulphur dioxide. In 1992, Romania had the world's 28th highest level of industrial carbon dioxide emissions, which totaled 122.1 million metric tons, a per capita level of 5.24 metric tons. In 1996, the total dropped to 119 million metric tons.

Damage to the nation's soils from erosion and pollution has decreased agricultural production by 50% in some areas. Acid rain originating in Hungary is another environmental problem. Some water conservation programs were initiated in the mid-1980s, but the Environmental Protection Law of 1972 has not been strictly enforced.

Romania's forests and natural steppelands have been encroached on by farmers. Radioactivity from the Chernobyl nuclear site, two floods, and two earthquakes have also contributed to the nation's environmental problems. Moreover, intensive exploitation of forests before, during, and immediately after World War II necessitated a reforestation program that, between 1950 and 1964, resulted in the replanting of 1,159,600 hectares (2,865,400 acres).

As of 2001, 4.6% of Romania's total land area is protected. Sixteen of Romania's mammal species, 11 of its bird species, and 34 plant types are endangered. The Romanian bullhead perch, Atlantic sturgeon, slender-billed curlew, and Mediterranean monk seals are among those listed as endangered.

## 6 POPULATION

The population of Romania in 2003 was estimated by the United Nations at 22,334,000, which placed it as number 49 in population among the 193 nations of the world. In that year approximately 14% of the population was over 65 years of age, with another 18% of the population under 15 years of age. There were 95 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.23%, with the projected population for the year 2015 at 21,649,000. The population density in 2002 was 94 per sq km (243 per sq mi).

It was estimated by the Population Reference Bureau that 56% of the population lived in urban areas in 2001. The capital city, Bucharest, had a population of 2,054,000 in that year. Other major cities and their population estimates were Brasov, 323,736; Constanta, 350,581; Timisoara, 334,115; Iasi, 344,425; Cluj-Napoca, 328,602; Galati, 325,788; Craiova, 303,959; Braila, 234,110; and Ploiesti, 252,715. According to the United Nations, the urban population growth rate for 2000–2005 was 0.2%.

## 7 MIGRATION

Population shifts numbering in the millions occurred as a result of the two world wars—because of territorial changes, deportation and liquidation of Jews by the Nazis, flight before the Soviet military forces, deportations to the USSR, expulsion of the Volksdeutsche (ethnic Germans), and departures following the Communist takeover and before stringent security measures halted the flow. About 117,950 Jews emigrated to Israel between 1948 and 1951; another 90,000 were permitted to emigrate during 1958–64. Some 120,000 ethnic Germans left Romania between 1978 and 1988, and some 40,000 ethnic Hungarians fled in 1987 alone. In 1990, 80,346 people left, 78% to Germany, 9% to Hungary. Some 44,160 Romanians emigrated in 1991 and 31,152 in 1992. In 1992, 103,787 Romanians were given asylum in Germany, but in September of that year Germany returned 43,000 refugees, over half of whom were Gypsies.

Since 1991, Romania has been an asylum country for refugees and has accepted more than 6,000 asylum applications, of which 1,000 have been granted refugee status. Applications come mainly from the Middle East, Africa, and Asia. As of 1999, estimates indicated there were no more than 2,000 asylum-seekers and refugees in Romania, the remainder having left for

other countries or returned to their homelands voluntarily. During the Kosovo crisis in 1999, Romania offered to accept 6,000 Kosovar refugees from Macedonia under the UNHCR/IOM Humanitarian Evacuation Programme. It only actually hosted about 100, until the end of July 1999 when all but one returned to Kosovo. In 1999, the net migration rate was -0.87 migrants per 1,000 population.

## 8 ETHNIC GROUPS

Romanians constitute by far the majority group (89.5%), but the population includes two important ethnic minorities: Hungarians (7.1% of the total population) and Germans (0.5%), both concentrated in Transylvania. The number of Hungarians may be understated by as much as 40%, however, and the number of Germans by even more. The number of Roma (Gypsies), officially put at 401,087, has been estimated elsewhere at 2.3 million. Lesser numbers of minorities (totaling 1.6%) include Ukrainians, Turks, Russians, Serbs, Croats, Jews, Poles, Bulgarians, Czechs, Greeks, Armenians, Tatars, and Slovaks. Since 1989 Gypsies have been targets of an organized campaign of violence throughout Romania.

## 9 LANGUAGES

Romanian is the official language. As a Romance language derived from the Latin spoken in the Eastern Roman Empire, Latin word elements make up 85% to 90% of the modern Romanian vocabulary. In the 2,000 years of its development, the language was also influenced by contacts with Slavonic, Albanian, Hungarian, Greek, and Turkish. Of the loanwords, Slavonic elements are the most numerous. Earliest Romanian written texts still extant date from the 16th century. In addition to letters of the English alphabet, Romanian has the letters *ă*, *î*, *â*, *ș*, and *ț*. Hungarian and German are spoken by a large percentage of the inhabitants of Transylvania.

Under the new government, as under the Communist regime, ethnic Hungarians have vainly sought the full restoration of secondary and university teaching in their language. They also criticize the failure of the new constitution to guarantee the use of minority languages in court.

## 10 RELIGIONS

The great majority of Romanians (86.8% in the 1992 census) are affiliated with the Romanian Orthodox Church, one of the autocephalous Eastern Orthodox churches. Under Bulgarian influence, Slavonic rite was maintained in the Romanian Church until the 17th century, when Romanian became the liturgical language. The Romanian Church enjoyed a large measure of autonomy in the Middle Ages and, after Romania achieved full independence from the Turks in 1878, was formally declared independent of the Patriarchate of Constantinople; it is now headed by its own patriarch. The Greek Catholic (Uniate) Church was formed in 1698 by the Transylvanian Orthodox, who acknowledged the jurisdiction of the Holy See. In October 1948, the new Communist regime compelled the Uniate Church to sever its ties with Rome and to merge with the Romanian Orthodox Church.

The government recognizes 15 religions. Catholic denominations include Roman and Greek. Greatly weakened under earlier Communist pressure, Roman Catholics had no official connection with Rome since 1948, when the Communist regime unilaterally annulled the concordat with the Vatican. In 1990, relations with the Vatican were restored. Protestant denominations include the Reformed (Calvinist) Church of Romania, the German-minority Evangelical Church of the Augsburg Confession, the Unitarian Church (mostly Hungarian), Baptists, Seventh-Day Adventists, Pentecostals, Methodists, and Presbyterians. According to the 1992 census, about 55,928 people were Muslim and 9,670 were Jewish. There are also small



LOCATION: 48°15' 06" to 43°37' 07" N; 20°15' 44" to 29°41' 24" E. BOUNDARY LENGTHS: Ukraine, 531 kilometers (329 miles); Moldova, 450 kilometers (279 miles); Black Sea coastline, 234 kilometers (145 miles); Bulgaria, 608 kilometers (377 miles); Serbia and Montenegro, 476 kilometers (295 miles); Hungary, 445 kilometers (277 miles). TERRITORIAL SEA LIMIT: 12 miles.

communities of Baha'is, God's Children (of the Family), Hare Krishnas, Zen Buddhists, and Mormons (Church of Jesus Christ of Latter-Day Saints). Approximately 24,000 people claimed to be unaffiliated with any religion whatsoever.

## 11 TRANSPORTATION

Romania is strategically located at the crossroads of Europe and Asia. Romania's railroad network extends for 11,385 km (7,074 mi), of which 3,888 km (2,416 mi) are electrified. There were 153,359 km (95,297 mi) of roads at the end of 2002, of which 103,671 km (64,421 mi) were paved, including 133 km (83 mi) of expressways. In 2000, there were 3,128,782 passenger cars and 496,743 commercial vehicles in use.

Only the Danube and, to a lesser extent, the Prut rivers are suitable for inland navigation, which accounts for only about 1% of the total freight traffic. The main Danube ports include Galati,

Braila, and Giurgiu. At Giurgiu, on the main transportation line between Romania and Bulgaria, a road-and-rail bridge was completed in 1954, replacing the former Danube ferry to Ruse, Bulgaria. A major project, the Danube-Black Sea Canal, designed to bypass the shallow, silted arms of the Danube Delta, was started in 1949 but abandoned in 1953; it was revived in the early 1980s and opened in 1984. The canal is 64 km (40 mi) long and connects Cernavoda with Constanta. The Romanian merchant fleet consisting of 70 vessels, totaled 561,470 GRT in 2002, and was based in Constanta, the nation's chief Black Sea port.

Romanian airports totaled 61 in 2001, of which 25 had paved runways. Otopeni International Airport, near Bucharest, was opened in 1970 and remains the nation's principal international air terminal. Baneasa Airport, also near Bucharest, handles local traffic. Other important airports include M. Kogalniceanu at

Constanta and Giarmata at Timisoara. Romanian Air Transport (Transporturile Aeriene Române-TAROM) and Romanian Air Lines (Liniile Aeriene Române-LAR) are the primary air carriers. In 2001, 1,134,600 passengers were carried on scheduled domestic and international airline flights.

## <sup>12</sup>HISTORY

Archaeological excavations show that the land now known as Romania has been inhabited for thousands of years. Agriculture was introduced in the 6th century BC, and by the 3rd century BC the Cucuteni civilization had produced polychrome pottery. The Dacians, of Thracian stock, had become a distinct people by the end of the 1st century BC. The kingdom of Dacia reached the highest stage of its development toward the end of the 1st century AD, in the reign of Decebalus (87–106), but after four years of war, Dacia fell to the Roman Emperor Trajan in AD 106. The withdrawal of the Romans in AD 271 left the Romanians a partly Christianized Dacian-Roman people, speaking Latin and living in towns and villages built on the Roman pattern. In the following centuries, as Dacia was overrun by successive waves of invaders, the early Romanians are believed to have sought refuge in the mountains or to have migrated south of the Danube River. There the Dacian-Romanians, assimilating Slavic influences, became known by the 7th century as Vlachs (Walachians). The Vlachs apparently remained independent of their neighbors, but came under Mongol domination in the 13th century.

The establishment of the two principalities of Walachia and Moldavia in the late 13th and early 14th centuries opened one of the most important chapters in the history of Romania. Walachia came under Turkish suzerainty in 1476 and Moldavia in 1513; 13 years later, Transylvania, which had been under Hungarian control since 1003, also passed into Turkish hands. The tide of Ottoman domination began to ebb under Russian pressure in the second half of the 17th century; in 1699, under the Treaty of Karlowitz, Transylvania was taken by Austria (later Austria-Hungary), and in 1812, Russia obtained Bessarabia, a section of Moldavia, from the Turks. The Congress of Paris in 1856, which ended the Crimean War, guaranteed the autonomy of the principalities of Walachia and Moldavia and forced Russia to return the southernmost part of Bessarabia to Moldavia. The two principalities formed a union in 1859, with Alexandru Ioan Cuza as its first prince, but he was replaced in 1866 by Carol I of the house of Hohenzollern-Sigmaringen, under a new governing document that proclaimed Romania a constitutional monarchy. At the Congress of Berlin in 1878, Romania obtained full independence from Turkey but returned southern Bessarabia to Russia. Under the rule of Carol I, Romania developed into a modern political and economic unit.

As a result of the Balkan Wars in 1912–13, Romania gained southern Dobruja from Bulgaria. Carol I died in 1914 and was succeeded by Ferdinand I. In World War I, Romania joined the Allies and as a result acquired Bessarabia from Russia, Bukovina from Austria, and Transylvania from Hungary. The establishment of a greatly expanded Romania was confirmed in 1919–20 by the treaties of St. Germain, Trianon, and Neuilly. In the early post-war period, Ion Bratianu (son of a 19th-century premier) instituted agrarian and electoral reforms. Both Ferdinand and Bratianu died in 1927. A brief regency period under Iuliu Maniu, Peasant Party leader, was followed in 1930 by the return to Romania of Carol II, who, having earlier renounced his right of succession, now deposed his nine-year-old son, Michael (Mihai), and established a royal dictatorship.

As economic conditions deteriorated, Fascism and anti-Semitism became increasingly powerful, and Carol II sought to appease both Germany and the USSR, which by August 1939 had concluded their nonaggression agreement. In 1940, Romania ceded Bessarabia and northern Bukovina to the USSR, northern Transylvania to Hungary, and southern Dobruja to Bulgaria. In

the same year, Carol II abdicated in favor of his son Michael, and German troops entered the country. Romania joined the Axis in war against the Allies in 1941. As Soviet forces drove into Romania in 1944, a coup overthrew the wartime regime of Gen. Ion Antonescu on 23 August, and Romania joined the Allies against Germany. A Communist-led coalition government under Premier Petru Groza was set up in March 1945. King Michael was forced to abdicate on 30 December 1947, and the Romanian People's Republic was proclaimed. The Paris Peace Treaty of 1947 fixed Romania's frontiers as of 1 January 1941, with the exception of the border with Hungary, which was restored as of 1 January 1938, so northern Transylvania was once again part of the Romanian state.

The Communist constitution of 1948 was superseded in 1952 by a constitution patterned more directly on that of the USSR. In international affairs, Romania followed a distinctly pro-Soviet line, becoming a member of CMEA and the Warsaw Pact. Internally, the regime nationalized the economy and pursued a policy of industrialization and the collectivization of agriculture. During the 1960s, however, and especially after the emergence of Nicolae Ceausescu as Communist Party and national leader, Romania followed a more independent course, increasing its trade with Western nations and avoiding a definite stand in the Sino-Soviet dispute. In 1967, Romania was the only Communist country that did not break diplomatic relations with Israel following the Six-Day War. In 1968, Romania denounced the Soviet intervention in Czechoslovakia, and the USSR-Romania treaty of friendship and cooperation expired; a new accord was not signed until 1970. Further examples of Romania's independent foreign policy in the 1970s were the gradual improvement of relations with China, numerous bilateral agreements with the nations of Western Europe, and President Ceausescu's state visit in December 1973 to Washington, where he signed a joint declaration on economic, industrial, and technical cooperation with the United States. In the 1970s and early 1980s, Romania also became increasingly involved in the nonaligned movement. In 1982, Ceausescu called on the USSR to withdraw from Afghanistan.

In contrast to some other East European countries, there was relatively little political and cultural dissent in Romania during the first 30 years of Communist rule. In 1977, however, about 35,000 miners in the Jiu Valley, west of Bucharest, went on strike because of economic grievances. Afterwards, the Romanian Communist Party hierarchy was frequently reshuffled, ostensibly to improve economic management, with Ceausescu and several members of his family (particularly his wife, Elena) increasing their power.

In the early and mid-1980s, there were a number of work stoppages and strikes caused by food and energy shortages. In early 1987, Ceausescu indicated that Romania would not follow the reform trend initiated by Mikhail Gorbachev in the USSR.

The progress of *perestroika* (restructuring) in the Soviet Union, intensified by the wave of "velvet revolutions" which rolled across Eastern Europe in autumn 1989, only served to highlight the repressiveness of the Ceausescu regime, which had all but starved and frozen the country to death in its attempt to repay international indebtedness, which President Ceausescu said in April 1989 had been US\$10 billion. The regime was also single-mindedly pushing ahead with the "systemization plan" begun in March 1988, which intended to force about half the country's peasants into urbanized "agro-industrial" complexes by bulldozing their villages.

The policy was especially offensive to the 2.5 million Hungarians in Romania's western regions, who understood the policy to be an attempt to further undercut their cultural autonomy. In mid-December 1989, abysmal economic conditions and ethnic tension led to spontaneous demonstrations in the western city of Timisoara. When the Securitate, Romania's

dreaded secret police, attempted to deport Laszlo Toekes, a popular clergyman who had been a leading spokesperson for the local Hungarians, thousands of people took to the streets. Troops were summoned, and two days of rioting ensued, during which several thousand citizens were killed.

News of the riot, and of the government's handling of it, fanned further demonstrations around the country. Probably unwisely, President Ceausescu went ahead with a planned three-day visit to Iran. Upon his return, he convened a mass rally at which he attempted to portray his opponents as fascists. However, the rally turned into an anti-government demonstration, in which the army sided with the demonstrators.

Ceausescu and his wife attempted to flee the country, but were apprehended, tried, and summarily executed, on 25 December 1989. Several days of fighting raged, as the Securitate and the army battled for power. A hastily assembled Council of National Salvation took power, repealing a number of Ceausescu's most hated policies and laws. The Council's president was Ion Iliescu, a former secretary of the Communist Party, who had been one of several signatories to a letter, which had accused Ceausescu of gross mismanagement of Romania's economy, made public in March 1989. The prime minister, Peter Roman, was also a prominent Communist.

Although the Council contained some non-Communists, the majority had been prominent officials in Ceausescu's regime, which prompted almost continuous public protests. Despite a continued government monopoly on media, political opposition groups managed to rally public support to demand the banning of the Communist Party, and the widening of the government. In February 1990, Iliescu agreed, replacing the 145-member Council of National Salvation with a 241-member Council of National Unity, which included members of opposition parties, national minorities, and former political prisoners; it also contained the full membership of the former Council, and Iliescu remained president.

Parliamentary elections were held in May 1990 against a background of continued civil unrest, especially in the Hungarian west. Although international observers considered the elections to have been generally fair, the National Salvation Front—now a political party—made ruthless use of its media monopoly to take about two-thirds of the parliamentary seats from a divided, disorganized, and inexperienced opposition. Iliescu was elected president, with about 85% of the votes, in a contest in which there had been more than 94% voter turnout.

The conviction that ex-Communists had “stolen” the election brought continued demonstrations in Bucharest and elsewhere. In April 1990, in a move that was criticized internationally, the Iliescu government trucked in miners from the northern part of the country, urging them to beat up and disperse the demonstrators, ending what threatened to become a coup d'état against Iliescu.

After the failure of those demonstrations, the opposition began to link up into parties, hoping to challenge Iliescu and his party in the next parliamentary elections, to be held in 1992. Popular discontent, however, continued to find more direct expression. Angry that the promises which had brought them to Bucharest in June had not been kept, the miners returned in September 1991, this time to link up with many of the opposition figures that they earlier had attacked, now to mount a mass attack on the government. Iliescu had no choice but to dismiss Prime Minister Roman, replacing him with Theodor Stolojan, an economist who managed to contain popular discontent until the general elections of September 1992, largely by delaying implementation of economic reforms. The parliamentary elections demonstrated a wide diffusion of political support. Iliescu's National Salvation Front won 28% of the seats, making it the largest party, but the Democratic Convention, an anti-Communist opposition coalition with a strong monarchist wing, took 20%, while former Prime

Minister Roman's National Salvation Front, now opposed to Iliescu, took 10%. The remaining 42% of the seats were divided among five other parties.

The popular vote for president showed that Iliescu still had support, although it had dropped to just above 60% of the electorate. The success of his opponent, Emil Constantinescu, a former rector of Bucharest University, demonstrated the continuing hostility to Iliescu and the other ex-Communists who had managed to retain power.

Iliescu's dismissal of Stolojan, in November 1992, was widely seen as a recognition of that significant minority's opposition. Iliescu chose Nicolae Vacaroiu as prime minister, who had no earlier ties to the Ceausescu or Iliescu governments. However, the move was addressed as much to the International Monetary Fund (IMF) as the rest of the international financial community, which had emerged as Romania's chief source of support. Continued political instability and the fitful pace of privatization, combined with a strong nationalist bloc in the parliament which warned against “selling out” Romania to foreigners, all kept foreign investment quite low, a total of only about \$785 million for all of 1990–94. As a consequence Romania has had to rely upon loans from Western sources, especially the IMF, piling up foreign debt at the rate of about \$1 billion a year. In return for this infusion of cash the foreign donors have set stringent requirements of economic reform, which Romania is not finding easy to meet.

Romania's fitful progress toward democratization exacerbates the social pressures of its continued economic decline. Romanians began the post-Ceausescu period as among the poorest people in Europe, and their economy worsened for several years. Inflation for 1992 was 210%, and more than 300% for 1993, while unemployment was almost 10%. Most significantly, production fell for the first couple of years after the anti-communist revolution. Beginning in 1994, however, Romania began slowly turning its economy around. In 1996, it even applied for membership in the EU—although it knew that admission before 2000 was doubtful.

In November 1996, presidential and parliamentary elections were held as the economy, while still fairly grim, continued to improve in several sectors. Popular opposition to the ex-communist Iliescu had grown strong leading up to the elections, mainly due to broken promises of economic security and widespread corruption that saw the enrichment of a small clique of ex-communist insiders amid general economic hardships across the country. Iliescu also failed to deliver on many privatization schemes, angering the middle-class merchants. In the election's first round on 3 November, the Democratic Convention Alliance of Opposition Groups, led by Emil Constantinescu, Iliescu's 1990 opponent, earned the highest percentage of votes (30%) followed by Iliescu's Party of Social Democracy (PDSR) and the Social Democratic Union (22%), and former Prime Minister's Peter Roman's center-left party (13%). In the presidential election, neither Iliescu nor Constantinescu received a majority, so a runoff was held on 17 November, in which Constantinescu took 54% of the vote, becoming Romania's first true post-communist leader. The West was thrilled with the victory, as Constantinescu was seen as significantly more pro-free market and pro-international investment than Iliescu. The new government immediately began imposing austerity measures, vowing to reduce the deficit significantly by the end of 1997. However, it was hobbled by disagreements among coalition members, and in March 1998, the prime minister, Victor Ciorbea, was replaced by Radu Vasile. The government's position was weakened even further in January 1999 when it backed down in the face of demands by striking coal miners in order to avert potential violence.

By the first half of 2000, the failure of the reformist government to bring about the promised economic recovery had led to widespread disenchantment. Inflation, unemployment, and

debt remained serious problems, and Romania had also failed to achieve its major foreign policy objectives—admission to NATO and the EU. Public discontent had led to a resurgence in the popularity by Iliescu's ex-Communists, who won a decisive victory in the June local elections. At midyear it was widely expected that the November general elections would bring a change in both the government and the presidency, and it was considered possible that Iliescu himself might stage a political comeback.

Presidential and parliamentary elections were held on 26 November 2000, which were won by Iliescu's PDSR. Iliescu became president after a second round of voting was held on 10 December, defeating extreme right-wing candidate Corneliu Vadim Tudor of the xenophobic Greater Romania Party (PRM). Tudor has been compared to France's Jean-Marie Le Pen, Russia's Vladimir Zhirinovskiy, Austria's Jörg Haider, and the late Pym Fortuyn of the Netherlands. Voter turnout was around 60%, 20% lower than in 1996. Iliescu won 36.4% of the vote in the first round, to Tudor's 28.3%; in the second round, Iliescu took 66.8%, and Tudor won 33.2% of the vote. The PRM made a strong showing in both the Senate and Chamber of Deputies, alarming Romania's ethnic Hungarian, Gypsy, and Jewish communities. Tudor also campaigned against corruption and crime. Iliescu's PDSR pledged to put an end to economic crisis, but also to satisfy the demands of the EU, IMF, and World Bank for fiscal austerity.

In December 2001, under pressure from the EU, Romania repealed a provision of its penal code that discriminated against homosexuals. In November 2002, NATO formally invited Romania to join the organization, one of 7 Eastern European nations to join in 2004. Also in 2002, the EU announced that Romania was not ready to become a member in the next round of EU enlargement set for 2004; however, Romania and Bulgaria are expected to join in 2007.

### 13 GOVERNMENT

The Council for National Unity enacted a new constitution for Romania in November 1991, and the document carried many of the hallmarks of Soviet-era constitutions, granting rights in some articles and revoking them in others. However, the legal system is now generally based on the constitution of France's Fifth Republic.

The present arrangement has a directly elected president who serves for a maximum of two four-year terms; he is head of state. Among the president's powers is the right to name the government, which is headed by a prime minister.

The legislature is made up of two houses, the Senate, with 143 seats, and the Assembly of Deputies, with 346 seats; members of both bodies are directly elected on a proportional representation basis to serve four-year terms.

The 1991 constitution affords the Romanian judiciary independence, however, in practice the judiciary is influenced by the executive branch.

### 14 POLITICAL PARTIES

After the coup against Ceausescu, some 80 political parties appeared—some new; others, like the Liberals and the Peasant Party, revivals of prewar parties that the Communists had outlawed. The dominant party in the 1990 elections, however, proved to be the National Salvation Front (NSF), which took two-thirds of the seats in the National Assembly.

By 1992, the NSF had split over the issue of whether or not to support Iliescu. The main party renamed itself the Party of Social Democracy in Romania (PSDR), while a pro-Iliescu wing became the Democratic National Salvation Front, and an anti-Iliescu wing, headed by ex-Prime Minister Roman, became the Front for National Salvation (FSN). The PSDR took 28% of the vote and the FSN, 10%.

The second-largest party in the 1992 elections was a coalition, called the Democratic Convention of Romania (DCR), which incorporated such parties as the National Peasant Party Christian Democratic, the Movement of Civic Alliance, the Party of Civic Alliance, Liberal Party '93, and the Social Democratic Party. There are also small ultranationalist parties, the Party of Romanian National Unity and the Greater Romania Party, and the Communists have been reborn as the Socialist Labor Party. Despite superficial political differences, all three parties are anti-Hungarian, anti-Gypsy, and anti-Semitic, as well as anti-democratic.

In the parliamentary elections held on 3 November 1996, the PSDR lost its majority standing, and the DCR won a strong majority. The DCR became the ruling party with 53 seats in the Senate and 122 in the Chamber of Deputies; the PSDR held 41 and 91, respectively; the Social Democratic Union, 23 and 53; Hungarian Democratic Union, 8 and 19; Greater Romania Party, 8 and 19; and National Union Party, 7 and 18. Victor Ciorbea, a trade union leader and former mayor of Bucharest, became prime minister, and Emil Constantinescu became president.

Parliamentary and presidential elections were held on 26 November 2000, which were won by the PDSR. However, the Greater Romania Party (PRM) made a strong showing in both houses of parliament, and its candidate for president, Corneliu Vadim Tudor, came in second behind Iliescu, who again became president. The PDSR merged with the Romanian Social Democratic Party (PSDR) to form the Social Democratic Party, and with the Humanist Party of Romania, formed the Democratic Social Pole of Romania. This coalition won 155 of 346 seats in the Chamber of Deputies and 65 of 143 seats in the Senate. The PRM took 84 seats in the Chamber of Deputies and 37 in the Senate; the Democratic Party took 31 and 13 seats, respectively; the National Liberal Party won 30 and 13; the Hungarian Democratic Alliance won 27 and 12; and 19 ethnic parties were represented with 1 seat each in the Chamber of Deputies.

### 15 LOCAL GOVERNMENT

Romania is divided into 41 counties (*judete*), as well as the municipality of Bucharest, which has separate status. Below the counties, there are three other categories of local authority: approximately 2,800 communes (with populations up to 5,000), 280 orase (with populations of approximately 5,000–20,000) and 86 municipalities. In the Ceausescu era the counties were administered by appointees of the central government, whose responsibility was solely to Bucharest. The Iliescu government attempted to reshape local government, but most sources agree that the result was to further remove authority from the countryside. Much of Romania is deeply rural, with almost no contact between localities or with the central government. The Iliescu government stopped the Ceausescu "systemization" plan and, in 1990, passed legislation intended to return land to individual peasant control. Indications were, however, that enactment of those provisions was spotty, suggesting that much of the countryside remained in a sort of administrative limbo, no longer tightly controlled by the center but not yet self-governing. Nevertheless, after nearly four years of rule by the DCR governing coalition, the PSDR, led by Iliescu, won a clear victory in local elections held in June 2000, including victory in Bucharest for the first time since the collapse of communism ten years earlier.

### 16 JUDICIAL SYSTEM

The 1992 law on reorganization of the judiciary established a four-tier legal system, including the reestablishment of appellate courts, which existed prior to Communist rule in 1952. The four tiers consist of courts of first instance, intermediate appellate level courts, a Supreme Court, and a Constitutional Court. The



Constitutional Court, six of whose nine members are chosen by the parliament and three by the president, has judicial responsibility for judicial review of constitutional issues. The Constitutional Court judges are appointed for nine-year terms. The Supreme Court was reorganized under a separate 1993 law; its members are appointed by the president of Romania and exercise ultimate authority over all other courts in the country. The judges of the Supreme Court are appointed for a term of 6 years and may serve consecutive terms.

Under the law, the courts are independent of the executive branch. The constitution vests authority for selection and promotion of judges in the Ministry of Justice. Judges are appointed for life by the president upon recommendation from a panel of judges and prosecutors selected by parliament.

Alongside this ordinary court system is a three-tiered military court system, which handles cases involving military personnel.

## 17 ARMED FORCES

The Romanian armed forces have been reorganized in the wake of the revolution of 1989–90, which destroyed the Communist armed forces and security establishment. In 2002, the armed forces numbered 99,200 active personnel, supported by 130,000 reserves. There were 66,000 in the army, 6,200 in the navy, and 17,000 in the air force, which had 202 combat aircraft and 21 attack helicopters. The paramilitary of 79,900 consisted of armed border guards and a gendarmerie. Romania participated in Operation Enduring Freedom in Afghanistan, and in peacekeeping missions in six other regions. Defense expenditures in 2002 were \$985 million, or 2.5% of GDP.

## 18 INTERNATIONAL COOPERATION

Romania, which became a member of the UN on 14 December 1955, participates in ECE and all the non-regional specialized agencies except the IDA. Romania is also a member of the WTO, and participates in G-77, the only former Warsaw Pact member to do so. Romania has also applied for membership in the EU and is a signatory to the Law of the Sea. In 1997, France made a highly publicized, but ultimately failed, move to allow Romania to join NATO in that organization's first move into the former Soviet bloc. Nonetheless, Romania was formally invited to join NATO in November 2002. As of 2003, it was tentatively slated to accede to EU membership in 2007.

## 19 ECONOMY

Before World War II, the economy was predominantly agricultural, with agriculture and forestry contributing 38.1% of the national income in 1938, and industry (including construction) 35.2%. As a result of the industrialization program of the Communist government, this ratio has changed greatly. In 1996, agriculture and forestry contributed 19% to national income; industry, 36%; construction, 7%; and services, 38%. Within industry, structural changes reflected the government's emphasis on the development of heavy industry, particularly machine-building, as opposed to consumer goods. The relative neglect of the agricultural sector, in addition to peasants' resistance to collectivization, resulted in agricultural difficulties, including shortages.

The basic organization of economic management in Romania was highly centralized, like its original Soviet model, with few of the modifications introduced elsewhere in Eastern Europe. During the late 1970s and in the 1980s, the continued emphasis on industrial expansion and consequent neglect of agriculture led to food shortages and rationing. Romania's economic problems in the 1980s were exacerbated by the government's program to reduce foreign debt: the debt was indeed reduced, from \$10.5 billion in 1981 to \$6.6 billion at the end of 1987, but at the cost of reduced industrial development. In addition, two extremely harsh winters (1985 and 1987) resulted in widespread power

shortages and loss of production. In the 1990s, foreign debt has once again been on the rise; after reaching a low of \$3.5 billion in 1992, it had risen to \$10 billion in 1998.

The transition to a market economy also proved extremely painful. By 1992, grain production was only two-thirds of the 1989 level, GDP had fallen by 30%, industrial production had fallen 47% and inflation had reached 300%. Growth returned weakly in 1993, with GDP increasing 1%, but then gained some momentum, rising 3.9% in 1994, 6.9% in 1995 and 4% in 1996. In 1997, the government entered into an arrangement with the IMF for a standby agreement (SBA) supported by a credit line of \$430 million, but the agreement was suspended because of the government's slowness in implementing agricultural reform. At the end of 1997, GDP had fallen -6.6% and inflation had soared to 151.4%. The effects of the Russian financial crisis in 1998, which came to a head in August, spread quickly to Romania, helping produce a further contraction of 7.3% of GDP for the year. Inflation, however, under new government restraints, moderated to 40.6%. Despite an austerity budget for 1999, inflation increased to 54.8% and the GDP contracted 3.2% for the year. In August 1999 the government entered into another SBA with the IMF, and in 2000 and 2001, GDP registered positive growth (1.6% and 4.1%, respectively), and decreasing inflation rates (40.7% and 37.5%, respectively). In October 2001 the government entered into its third SBA arrangement with the IMF, to run to October 2003. In 2002, estimated GDP growth had improved to 4.5% and inflation was on target to reach a relatively low 22%. Unemployment, virtually non-existent under the Communist system, has persistently stayed in the range of 9% to 11% since, averaging 10.6% 1999 to 2002.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Romania's gross domestic product (GDP) was estimated at \$152.7 billion. The per capita GDP was estimated at \$6,800. The annual growth rate of GDP was estimated at 4.8%. The average inflation rate in 2001 was 34.5%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 15% of GDP, industry 30%, and services 55%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$2 million. Worker remittances in 2001 totaled \$4 million. Foreign aid receipts amounted to about \$29 per capita and accounted for approximately 2% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$1,107. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 11%. Approximately 36% of household consumption was spent on food, 9% on fuel, 3% on health care, and 20% on education. The richest 10% of the population accounted for approximately 25.0% of household consumption and the poorest 10% approximately 3.2%. It was estimated that in 2000 about 45% of the population had incomes below the poverty line.

## 21 LABOR

An estimated 9.9 million people were employed in 1999. Of those, 40% worked in agriculture (compared with 57.1% as of a 1966 census); 25% in industry; and the remaining 35% in the service sector. Officially, unemployment was at 9.1% in 2001. The economy is in the process of privatization, and in 2001, 64.5% of the workforce was employed by the private firms. The government remained prominent in the large industrial sector.

Labor legislation adopted in 1991 guarantees the right of private sector employees to associate freely, organize and join unions, bargain collectively, and carry out strikes. Romania's trade unions belonged to the General Confederation of Romanian Trade Unions (UGSR), a state-controlled body for many years. Many of the new unions joined the umbrella organizations the Organization of Free Trade Unions and Alfa Carta. The eight major unions in Romania include Infratirca, Justice of Brotherhood Union, and the Convention of Non-Affiliated Trade Unions of Romania. In 2001, there were about 18 nationwide trade confederations plus smaller independent unions. Employees are permitted to strike, but the government occasionally interfered with striking workers. Although the law protects the right to bargain collectively, this is hampered by the tradition of central government control.

Most employees work a five-day, 40-hour week. The minimum wage in 2002 was \$48 per month, but the government also subsidizes necessities such as housing and health care. Still, this does not provide a decent standard of living for a family. Children under the age of 16 years are not permitted to work, although 15 year olds may be employed with parental consent. Neither the government nor industry has the resources to enforce safety and health standards in the workplace.

## 22 AGRICULTURE

Although under communism the emphasis had been on industrialization, Romania is still largely an agricultural country. Of the total land area, 43% was arable land in 1998. Agriculture engaged about 16% of the active population and accounted for 15% of GDP in 2001.

The government began forming collective farms in 1949 and had largely completed the collectivization process by 1962. By 1985, of a total of 15,020,178 hectares (37,115,460 acres) of agricultural land, 29.7% was in state farms, with another 60.8% in large cooperative farms. The socialized sector consisted of 3,745 collectives, 419 state farms, and 573 farming mechanization units by 1985. The Land Reform of 1991 returned 80% of agricultural land to private ownership. Of the 14.8 million acres of agricultural land in 1996, some 2.6 million private producers farmed 44.6%; 20,400 associations of private producers farmed 25%; 1,171 state farms operated 12.8%; and public land accounted for the remaining 17.6%. Average farm size for private producers that year was 2.5 ha (6.2 acres); for associations, 180 ha (445 acres); and for state farms, 1,620 ha (4,003 acres). The fragmentation of land is one of the leading factors inhibiting productivity in agriculture.

Grain growing has been the traditional agricultural pursuit, but the acreage has been reduced since World War II, and more area has been assigned to industrial and fodder crops. The 1999 production totals (in thousand tons) for major crops was wheat, 4,658; barley, 624; corn, 10,014; oats, 390; soybeans, 169; sunflower seeds, 1,208; sugar beets, 1,360; vegetables, 3,745; potatoes, 3,162; and grapes, 1,420. In 2001, exports of agricultural products totaled \$446 million. Agricultural imports amounted to \$1,224 million that year.

## 23 ANIMAL HUSBANDRY

Romania has some 3.4 million ha (8.3 million acres) of pastures. Animal production in Romania has developed somewhat more rapidly than crop production. The 1970 value of total livestock production, including the increase in herds and flocks as well as livestock products, was slightly more than double the level of 1938, and the 1974 value was 34% above that of 1970. In view of the initially low level of Romanian livestock production, development has been slow, however. The major reasons for the inadequate increases had been lack of economic incentives, insufficient fodder, and inadequate shelter. Since the overthrow of the Ceausescu regime in 1989, privatization of much of the

grazing land has begun. In order to improve livestock raising, the government continues to stress agricultural modernization.

The livestock numbers (in thousands) for 2001 were cattle, 2,870; hogs, 4,797; sheep, 7,657; and poultry, 70,076. After several years of livestock reduction, the hog and poultry inventories rose at the end of 1995, due to increases in the private sector. Sheep numbers have dropped because of exports. State farms were also forced to cut their flocks due to reduced grazing land and financial difficulties.

Production of livestock food products for 2001 consisted of 957,000 tons of meat, 4,457,000 tons of cow's milk, 324,000 tons of sheep's milk, 38,000 tons of cheese, 276,000 tons of eggs, and 6,500 tons of butter. In 2001, exports of meat amounted to \$18.6 million.

## 24 FISHING

Romania lost an important fishing region and nearly all its caviar-producing lakes with the cession of Bessarabia to the USSR in 1940. But the Black Sea, the Danube and its floodlands, as well as other rivers, lakes, and ponds, are favorable to the development of the fishing industry, which expanded rapidly during the early 1970s. About 80% of the fish comes from the Danube floodlands and delta and 20% from the Black Sea. In 2000, the total catch was 7,372 tons, as compared with 95,473 tons in 1991 and 16,000 in 1960.

## 25 FORESTRY

In 2001, forests covered 6.35 million ha (15.7 million acres), representing about 27% of the total area of Romania. The forests are found mainly in the Carpathian Mountains and in Transylvania, and are 70% hardwood (mostly beech and oak) and 30% softwood (mainly spruce and pine). Commercial forests account for 98% of the total forest area. About 40% of Romania's forests are damaged, and up to 25% are defoliated. Insects, air pollution, and fires are the main causes of tree damage. The amount of timber permitted to be cut is approved annually by the Romanian parliament, and was set at 16 million cu m (565 million cu ft) for 2002 (95% from state-owned forests). Roundwood production in 2001 was estimated at 14,500,000 cu m (511.9 million cu ft). Furniture production and industrial processing utilized 48% of domestic roundwood that year, firewood, 17%; pulp and paper, 16%; construction, 12%; and wood chips, 7%. Forestry accounts for 5% of GDP and 10% of exports.

Between 1976 and 1985, 580,000 hectares (1,433,200 acres) were reforested. After the collapse of the communist regime, domestic demand, exports, and reforestation plummeted. During 1990–2000, some 15,000 ha (37,000 acres) were annually reforested. Since trade liberalization in 1997, Romania's wood industry has expanded; there are nearly 7,000 small and medium sized firms.

## 26 MINING

Romania's production of metals, industrial minerals, and mineral fuels was mainly of regional importance. Mining ranked third among Romania's leading industries in 2002, and the production of construction materials and chemicals, and petroleum refining were also among leading industries. Mine production of lead and zinc showed some recovery in 2000, paralleling the rebound in the economy, with GDP growing by 2.2%. Minerals and fuels ranked fourth among export commodities, accounting for 6% of exports, while metals and metal products ranked second, accounting for 15% of exports.

Romania mined iron ore (290,000 tons in 2000; 860,000 in 1996), as well as alumina, bauxite, bismuth, copper, gold, manganese, molybdenum, silver, and uranium. Among industrial minerals, Romania produced antimony, barite, bentonite, diatomite (9,712 tons; 56,906 in 1996), feldspar, fluorspar,

graphite, gypsum (229,000 tons; 79,000 in 1997), kaolin, lime (1.48 million tons), limestone, nitrogen (content of ammonia, 700,000 tons; 1.5 million tons), pyrites, salt, sand and gravel, caustic soda, soda ash, sulfur, and talc—from 60 deposits throughout the country.

In 2000 Aurul S.A., a joint stock company processing gold-bearing tailings, experienced a spillage of 100,000 cu m of waste liquid from a tailings pond in the Baia Mare region, of an undetermined level of toxins (cyanide and heavy metals); later in the year, the government approved resumption of the tailings processing operation, which expected to recover 1.6 tons per year of gold and 9 tons per year of silver. A prefeasibility study for Euro Gold S.A.'s Rosia Montana gold properties proposed a 10 million ton per year open-pit mining operation that would produce 12.8 tons per year gold, increasing Rosia Montana's overall reserves of gold to 12.2 million troy ounces, from 8.65 million; total exploitable resources were estimated to contain 250,000 kg of gold and 1.5 million kg of silver.

Metals and metalworking in the region were well documented by Roman times, when Romania and Bulgaria, respectively known as Dacia and Thrace, were important sources of base and precious metals. Gold and nonferrous metals mined in the region remained attractive investment opportunities.

## 27 ENERGY AND POWER

Under the stimulus of industrialization, electric power generation rose from 2.1 billion kWh in 1950 to 7.6 billion in 1960, 35.1 billion in 1970, and 75.5 billion in 1986. Production in 2000 totaled 49.6 billion kWh, of which 52.6% was from fossil fuels, 36.9% from hydropower, 10.5% from nuclear power, and less than 1% from other renewable sources. Consumption of electricity in 2000 was 45.7 billion kWh. Installed capacity increased from 1,863,000 kW in 1961 to 22,483,000 kW in 2001. Before the 1989 revolution, there were frequent power shortages and strict energy rationing measures.

Most thermal electric power is generated with natural gas and low-quality coal, with the latter replacing fuel oil in recent years. Two 1,300 MW nuclear reactors being built at Cernavoda, near Constanta, were scheduled to begin operation in 1985, but by early 1996 only one reactor was partially completed. As of 2002 the second unit was under construction, with completion slated for 2005. At the same time, rehabilitation of ten thermal power plants was also scheduled for completion by 2005.

As of the early 1970s, Romania was Europe's second-largest petroleum producer, next to the USSR. Oil production reached its prewar peak of 8.7 million tons in 1936 and rose to 14.5 million by 1974 (294,000 barrels per day in 1976). By 2002, oil output had declined 58% from its peak in the 1970s to 124,500 barrels per day, but Romania was still the largest oil producer in Eastern and Central Europe. Although consumption had also declined—to 180,000 barrels per day—Romania remained a net oil importer, as it had been since 1979. With a capacity of about 504,000 barrels per day, Romania is also the region's largest producer of refined petroleum products. A major fuel source is natural gas, which is associated with oil and also occurs in separate deposits in Transylvania. Output rose from 11.1 billion cu m in 1960 to 37.4 billion cu m in 1987, before falling to 14.2 billion cu m in 2000. Proven reserves of natural gas were at 100.8 billion cu m in early 2002. In addition to supplying Romania's industries, natural gas is sent by pipeline to Hungary. Coal production in 2000 totaled 32.2 million tons.

## 28 INDUSTRY

Industrial development received about half of all investment during the 1951–80 period. As officially measured, the average annual growth rate in gross industrial production between 1950 and 1980 was 12.3%, one of the highest in Eastern Europe. In 1993, however, industrial production was at only 47% of the

1989 level. The next year, industrial production increased by 3.3%. In 1995, it increased by 9.4% in absolute volume and was 13% higher than the 1992 output. In 1996, industrial production increased by 9.9% with the largest increases coming in the processing industry (+12.5%) and machine and electronics (+27.3%). After the Russian collapse of 1997, however, the industrial growth rate for 1998 was -17%. Industrial production picked up after Romania began to recover from its recession in 2000, and in 2001, the industrial growth rate was 6.5%.

Although industry continues to be a large sector of the economy (30% of GDP in 2000), it is outmoded and in need of serious modernization and restructuring. Key industries in 2002 included textiles and footwear, light machinery and automobile assembly, construction materials, metallurgy, chemicals, food processing, and petroleum refining. Romania produced 68,761 automobiles in 2001, a 12% decrease from 2000. It produced 759 heavy trucks in 2000, a 13% decrease from 1999. The country had 10 oil refineries in 2002, with a capacity of 504,000 barrels per day.

## 29 SCIENCE AND TECHNOLOGY

The Romanian Academy, founded in 1866, has sections of mathematical sciences, physical sciences, chemical sciences, biological sciences, economical sciences, technical sciences, agricultural sciences and forestry, medical sciences, and science and technology of information. The Academy of Medical Sciences and the Academy of Agricultural and Forestry Sciences were both founded in 1969. All three organizations are located in Bucharest, and in 1996, had 67 research institutes attached to them. In 1987–97, total research and development expenditures amounted to 0.7% of GNP; 1,387 technicians and 581 scientists and engineers per one million people were engaged in research and development. In 1996, Romania had 22 universities offering courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 21% of university enrollment.

## 30 DOMESTIC TRADE

Wholesale and retail trade were entirely in the socialized sector before 1990. By 1993, however, 50% of retail trade had been privatized. Since 1996, the government has worked more diligently, yet slowly, to create a market economy by eliminating consumer subsidies, liberalizing the exchange rates, and initiating tighter monetary policies. Further privatization programs are also underway and the government is considering ways to promote and encourage foreign commercial investment.

Domestic trade of consumer goods has been limited to local markets. There are only a few professional distributors and independent retailers tend to be rather small. The chief seaport is at Constanta. Timisoara and Brasov serve as regional industrial centers and railroad hubs. Oradea serves as a regional marketing and shipping center for livestock and agriculture. Arad is a regional commercial and industrial center in the west while Pitesti serves as a hub for the south-central region. Turgu-Mures serves as a regional industrial and agricultural center for central Romania.

Stores are open daily except Sunday from 10 AM to 6 PM. Food shop and retail department store hours are 7 AM to 9 PM Monday to Saturday and 7 AM to 12 noon on Sundays. Offices generally open at 7 or 8 AM and close at 3 or 4 PM. Exchange counters in banks transact public business from 8 AM to 12 noon, but exchange offices at border crossings remain open 24 hours a day.

## 31 FOREIGN TRADE

Before 1990, foreign trade was a state monopoly carried out through export-import agencies under the administration of the Ministry of Foreign Trade. Since World War II, the orientation and structure of Romanian foreign trade have shifted. Before the war, cereals, oil, timber, livestock, and animal derivatives

accounted for over 90% of total exports, while consumer goods (60%) and raw materials (20%) accounted for the bulk of the imports. Under the Communist industrialization program, structural changes were particularly striking in exports, with machinery and non-edible consumer goods emerging as important export items. Foreign trade was in surplus throughout the 1980s, but fell into deficit in the 1990s. Romania's increasing trade deficit after 1994 was due in large part to the depreciation of its currency, large energy imports (despite large domestic reserves), and the loss of two important export markets due to international sanctions: Iraq and the former Yugoslavia (now Serbia and Montenegro). The low quality of Romania's export products has also contributed to its large trade deficits. Additionally, with 80% of all imports taking the form of raw materials—principally oil, natural gas, and minerals—the country has little foreign exchange for the importation of equipment and technology of the type needed to modernize its sluggish industrial sector.

Exports in 2000 totaled \$10.4 billion and imports \$13.1 billion. In 2000, the major export categories were apparel (22%); machinery and electric equipment (19%); metals and their manufactures (17%); mineral fuels (7.2%); chemicals and related exports (5.8%); and food products, beverages, and tobacco (2.6%).

In 2000, imports were distributed among the following categories:

Consumer goods	11.4%
Food	5.5%
Fuels	12.1%
Industrial supplies	41.5%
Machinery	23.5%
Transportation	5.3%
Other	0.7%

Trade with the EU countries, especially Germany, has increased substantially in recent years, largely because of Romania's expanding need for advanced Western technology and equipment.

Principal trade partners in 2000 (in millions of dollars) were as follows:

	EXPORTS	IMPORTS	BALANCE
Italy	2,331	2,455	-124
Germany	1,627	1,923	-296
France	723	800	-77
Turkey	627	271	356
United Kingdom	546	536	10
United States	380	393	-13
Hungary	355	513	-158
Netherlands	329	284	45
Greece	324	372	-48
Austria	251	332	-81
Russia	89	1,121	-1,032

### 3<sup>2</sup>BALANCE OF PAYMENTS

Trade with Western countries has involved growing amounts of credits in recent years. As a result of a series of devaluations of the Romanian leu dating from February 1990, Western imports became increasingly costly while the quality of Romania's exports significantly declined. Romania's poor performance was additionally due to its reliance on the importation of raw materials—such as oil, natural gas and minerals—which accounted for as much as 80% of imports in 1995, leaving little exchange currency for equipment and technology.

Current account deficits have been financed in large measure by loans and grants from international financial institutions, but Romania has attempted to diversify its sources of external financing. Romania's external debt stood at \$11.6 billion in 2001. The country's international risk ratings have made it

difficult for Romania to borrow from the private international credit market.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Romania's exports was \$11.5 billion while imports totaled \$14.4 billion resulting in a trade deficit of \$2.9 billion.

The International Monetary Fund (IMF) reports that in 2001 Romania had exports of goods totaling \$11.4 billion and imports totaling \$14.4 billion. The services credit totaled \$1.99 billion and debit \$2.20 billion. The following table summarizes Romania's balance of payments as reported by the IMF for 2001 in millions of US dollars.

Current Account	-2,317
Balance on goods	-2,969
Balance on services	-209
Balance on income	-282
Current transfers	1,143
Capital Account	95
Financial Account	2,938
Direct investment abroad	17
Direct investment in Romania	1,157
Portfolio investment assets	-8
Portfolio investment liabilities	583
Other investment assets	-44
Other investment liabilities	1,233
Net Errors and Omissions	819
Reserves and Related Items	1,535

### 3<sup>3</sup>BANKING AND SECURITIES

Romanian banks were nationalized in 1948. Established in 1880, the bank of issue is the National Bank of the Socialist Republic of Romania, which also extends short-term loans to state enterprises and supervises their financial activities. The Romanian Bank for Development (1990) finances investments of state enterprises and institutions and grants long-term credit. As investments increased in volume, this bank was required to intensify its control over the use of funds allocated for investment. The Romanian Bank for Foreign Trade conducts operations with foreign countries. Savings are deposited with the Loans and Savings Bank. In 1974, New York's Manufacturers Hanover Trust opened an office in Bucharest, the first such instance for a Western commercial bank in a communist nation.

Romania has generally been very cautious in its approach to banking reform. Since 1990, the financial sector has undergone a fundamental overhaul, although the pace of change has been slower than elsewhere in the region. The number of banks rose from five in December 1990 to 41 by the end of 2000—including four branches of foreign banks, four branches of joint ventures based abroad, and 33 domestic banks. The foreign specialized banks—for development, agriculture, and foreign trade—still handle almost all of the business in these areas. The Romanian Commercial Bank is still the banker to most Romanian firms, while the Savings Bank retains a virtual monopoly on personal savings deposits. At decade's end, Romania's financial institutions, like the rest of its economy, remained in severe and protracted crisis. Despite repeated calls from the IMF to privatize, the seven state-owned banks still controlled 70% of all assets in Romania's banks. Moreover, these banks continued to be plagued by bad debt.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$2.1 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$9.3 billion. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 35%.

Romania set up its first postwar stock exchange in 1995, after the enabling legislation has been delayed for several years. The RASDAQ (Romanian Association of Securities Dealers Automatic Quotation), an over-the-counter securities market, opened in 1996. As of 2001, the total market capitalization of the RADAQ was \$2.1 billion, up 98% from the previous year.

### 34 INSURANCE

During the Communist era, all commercial insurance was nationalized. Since 1991, casualty, automobile, and life insurance have been made available through private insurers with foreign partners. Private insurers are only legally permitted as joint-stock or limited liability companies. Policies available include life, automobile, maritime and transport, aircraft, fire, civil liability, credit and guarantee, and agricultural insurance, with third-party auto insurance compulsory. Foreign insurance companies and agencies are now allowed to set up representative offices within Romania, though they must have a joint venture with a local company; a foreign company can own any percentage but 100%.

### 35 PUBLIC FINANCE

The annual budget is presented to the Grand National Assembly around December and becomes effective for the fiscal year on 1 January. The state budget, prepared by the Ministry of Finance, is a central part of the financial plan for the whole economy. The reduction of the growth rate of expenditures during the early 1980s was in keeping with an economic stabilization program designed to hold down domestic investment and consumption. As a result of fiscal reforms begun since the fall of the Ceausescu regime in December 1989, adherence to IMF fiscal targets, and an unanticipated inflation-fed revenue windfall during the first half, the central government unofficially recorded a relatively modest deficit for 1991.

Privatization of industry was accomplished in 1992 with the transfer of 30% of the shares of about 6,000 state-owned businesses to five private ownership funds, in which each adult citizen received certificates of ownership. About 45% of enterprises remain under state control today, and account for about 35% of GDP.

The US Central Intelligence Agency (CIA) estimates that in 1999 Romania's central government took in revenues of approximately \$11.7 billion and had expenditures of \$12.4 billion. Overall, the government registered a deficit of approximately \$700 million. External debt totaled \$11.6 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>11,700</b>
Tax revenue	85.1%	9,958
Non-tax revenue	14.4%	1,687
Capital revenue	<0.1%	5
Grants	0.4%	50
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>12,400</b>
General public services	4.1%	507
Defense	5.1%	631
Public order and safety	7.1%	882
Education	5.9%	729
Health	15.5%	1,916
Social security	31.4%	3,893
Housing and community amenities	1.9%	232
Recreation, cultural, and religious affairs	1.1%	140
Economic affairs and services	13.9%	1,722
Other expenditures	4.0%	498
Interest payments	10.1%	1,250

### 36 TAXATION

Romania's taxation system in the 1990s was notable for its erratic and confusing nature, but with reforms in late 1999 there has been movement towards uniformity and simplicity. As of 1 January 2000, the standard corporate income tax rate in Romania was reduced from 38% from 25%, and changes since then have been towards making 25% the usual rate. As of 1 July 2002 the profits of nightclubs, casinos, and discotheques, which had been taxed at 50%, were levied at 25% with the stipulation that total tax could not be lower than 5% of qualifying gross revenue earnings. In 2002, the rate applicable to export earnings was raised from 6% to 12.5%, and scheduled to reach 25% in 2004. From 1 July 2002, the corporate tax rate for companies in Romania's free trade zones (FTZs) was set at 5%, and scheduled to reach 25% by 2005. Reduced rates were still applicable to micro enterprises, defined as those with less than nine employees, revenues of no more than €100,000, and fully private. Micro enterprises were liable for tax equal to 1.5% of total gross revenues. Agricultural enterprises are still accorded preferential tax treatment. Capital gains are taxable at the normal corporate income tax rate of 25%. Dividends, paid to either residents or nonresidents, are subject to 10% withholding, although withholding taxes may be reduced according to the terms of bilateral double tax prevention treaties. Romania's double tax treaty with the United States dates from 1975. Branches of foreign companies are subject to the same taxes as Romanian companies, but representative offices were taxed at the older rate of 38%.

As part of the tax reform; Romania's top marginal rate for personal income tax was dropped from 60% to 40%. Personal income tax in 2003 was levied according to a progressive schedule with rates ranging from 18% (for taxable income above \$67/month; as of 1 January 2003 the monthly personal deduction was about \$57.35 up from \$51 in 2002), to 40% plus \$98/month (on increments of monthly income above \$370), with intermediate rates of 23% plus \$12; 28% plus \$35; and 34% plus \$62. The tax-exempt limit for a monthly pension payment was raised from \$159 in 2002 to \$182 in 2003. There are also property taxes.

The main indirect tax is Romania's value-added tax (VAT), with a standard rate reduced from 22% to 19% as of 1 January 2000. Many basic services are exempt from VAT including healthcare, scientific, educational and charitable activities, banking and financial services, and schoolbook editing. Withholding tax on dividends, a value-added tax of 18%. Other taxes include excise and stamp taxes.

### 37 CUSTOMS AND DUTIES

Romania joined the European Free Trade Association (EFTA) in December 1992 and signed an association agreement with the European Union early in 1993, which provided for Romania to adapt to EU economic-commercial standards over a 10-year period. Under an interim collaborative agreement effective 1 May 1993, a revised Romanian import tariff schedule was introduced with preferential tariffs for imports from EU and EFTA member nations. Customs duties range from 0% to 60%, with a weighted average of 11.7%. Duties are higher for cigarettes (60%) and audio and video equipment (42%). Tariff rates are on an ad valorem basis. There is also a value-added tax (VAT) of 19% levied on almost all goods.

### 38 FOREIGN INVESTMENT

Foreign investment was negligible before the overthrow of the Communist regime. A new 1991 foreign investment law was enacted in 1991. Incentives to foreign investors include tax holidays and reduction, full foreign ownership of an enterprise, and full conversion and repatriation of after-tax profits.

However, the latter is a drawn-out process because of the central bank's shortage of hard currency.

In 1997, the inflow of foreign direct investment (FDI) reached \$1.2 billion, and then rose to a record of over \$2 billion in 1998. Affected by the Russian financial crisis of August 1998, FDI inflow fell to a little over \$1 billion in 1999. Annual FDI inflow averaged about \$1.1 billion from 2000 to 2002. As of 2002, cumulative FDI in Romania since 1991 was about \$8 billion. France, South Korea, the Netherlands, Germany, the United States, and Italy have been the largest sources of FDI. The largest foreign operations are in the automobile industry.

### 39 ECONOMIC DEVELOPMENT

The economy of Romania before 1990 was centrally planned and, for the most part, under complete state control. The nationalized industries and other economic enterprises operated within the state economic plan and were governed by the directives issued by the pertinent ministries. Economic planning, conducted by the State Planning Commission, emulated the Soviet example.

Nationalization of industry, mining, transportation, banking, and insurance on 11 June 1948 was followed by one-year economic plans in 1949 and 1950. These were succeeded by the first five-year plan (1951–55), which laid the groundwork for rapid industrialization, with emphasis on heavy industry, primarily machine-building. The state's second five-year plan (1956–60) provided for an increase of industrialization by 60–65%. Greater attention was given to consumer goods and to agriculture. A subsequent six-year plan (1960–65) envisaged an overall industrial increase of 110%, especially in producer goods. The five-year plan for 1966–70 realized an overall industrial increase of 73%. The five-year plans for 1971–75, 1976–80, and 1981–85 called for further industrial expansion and, according to official figures, during 1966–85 industrial production grew by 9.5% annually. The eighth five-year plan, for 1986–90, projected a 13.3–14.2% annual increase in Romania's net industrial production.

In the farming sector, the government has assiduously pursued a policy of collectivization. By virtue of the 22 March 1945 land reform, most farms over 50 hectares (123 acres)—a total of about 1.5 million hectares (3.7 million acres)—were confiscated without compensation. In 1949, the remaining large private farms were seized, and their 500,000 hectares (1,236,000 acres) organized into state farms. Various pressures, including coercion, were used to force peasants into joining. In April 1962, collectivization was announced as virtually completed. Agricultural development in following years was comparatively neglected.

As of 1 January 1979, Romania began implementing the "new economic-financial mechanism," an attempt to introduce into the Romanian economy the principle of workers' self-management as previously developed elsewhere in Eastern Europe, notably in the former Yugoslavia and Hungary. Accordingly, autonomous production units were expected to plan for their own revenues and expenditures and manpower needs. These separate plans were, however, to be harmonized with the national economic plan, so that Romania's centralized system of goal and price setting was not significantly altered.

One of the major economic targets in the 1980s was the reduction of foreign debt, which was achieved but at the cost of drastic austerity measures and reduced industrial growth. After the fall of Communism, a major objective was the privatization of 6,200 state enterprises. The economy was to be completely restructured, with the emphasis on private ownership and adherence to the market for the allocation of resources. By late 1996, nearly all the country's agricultural land had been returned to private ownership, but only 65% of all eligible recipients had been officially given title. By 2002, Romania had privatized many

major state-owned enterprises, with the help of the World Bank, International Monetary Fund (IMF), and EU. Nonetheless, an estimated 45% of industrial assets remain owned by the state, particularly in the energy and mining sectors. The private sector in 2002 accounted for an estimated 65% of gross domestic product (GDP).

Economic growth declined in the late 1990s, but picked up in the early 2000s. Inflation remains a problem (it stood at 18% at the end of 2002). Foreign direct investment into the country grew to \$8.4 billion by mid-2002. In 2001, the IMF approved an 18-month (later extended to two years), \$413-million Stand-By Arrangement for Romania. Romania is seeking admission to the EU, with accession envisaged for 2007.

### 40 SOCIAL DEVELOPMENT

The Ministry of Labor and Social Solidarity administers a social insurance system. Social security covers all wage earners, while a voluntary system covers farmers. Old-age pensions are granted at age 65 for men and at 60 for women. Those engaged in hazardous or arduous work are eligible for retirement earlier. The program is funded by contributions from employers and employees, with deficits covered by the government. Workers who do not meet the conditions of duration of employment at retirement age are provided with social assistance. Survivors' benefits are payable to the spouse, father and mother, and brothers and sisters who are dependents of the deceased, and to children up to age 16. Workers' compensation and unemployment insurance are also provided.

All residents are entitled to medical care. Families with children under age 16 receive family allowances and a birth grant for each child. In addition to state social insurance, other schemes cover members of artisans' cooperatives, the clergy, and the professions.

The constitution guarantees equal pay for equal work, but women are still concentrated in low-paying professions. Few women are in senior management positions in the private sector. Women also face considerable employment discrimination in Romania's harsh economic climate and suffer from a higher rate of unemployment than do men. Violence against women, including rape, is a serious problem. It is difficult to bring rape cases to trial because the victim's testimony is not considered sufficient evidence; medical evidence and witnesses are required. Domestic abuse is widespread.

Ethnic Hungarians are the largest minority and are subject to discrimination. The Roma population continues to be harassed, and there are reports of anti-Semitic activity. Human rights are generally respected although there were continued reports of the mistreatment of detainees. The government has improved prison conditions and instituted vocational training, but prisons are still overcrowded.

### 41 HEALTH

As part of a broader social and economic transition, Romania's health care system underwent major reforms in the 1990s as it was transformed from a centralized, tax-based system to a pluralistic one based on contractual relationships between health care providers and insurance funds. Until the end of the decade, primary care was provided mainly through some 6,000 public-sector dispensaries throughout the country, with each patient assigned to a facility. Patients have subsequently been allowed to choose their own dispensary and general practitioner. Since 1990, general practitioners and specialists have also opened private medical offices. In 1996, there was one doctor for every 553 people. As of 1999, there were an estimated 1.8 physicians and 7.6 hospital beds per 1,000 people. In 2002, there were over 164,000 hospital beds in Romania. As of 1999, total health care expenditure was estimated at 4.6% of GDP.

Increased mother and child care lowered the infant mortality rate from 143 per 1,000 live births in 1948 to 19 in 2000. The general health of the population has likewise improved, with several previously serious diseases eliminated or greatly reduced (e.g., diphtheria, tuberculosis), although proper sanitation was available to only 53% of the population and safe drinking water to 58%. As of 1998, leading causes of death were cardiovascular disease, cancer, and respiratory diseases. Overall mortality was 12.3 per 1,000 people as of 2002. Average life expectancy in 2000 was 70 years. There were 240,798 births in 1999. Romania's birth rate in 2002 was an estimated 10.8 per 1,000 people. About 48% of married women (ages 15 to 49) used contraception in 2000. The abortion rate doubled from 1989 (when abortion became legalized) to 1993. The total fertility rate in 2000 was 1.3 children per woman during her childbearing years. Immunization rates for children up to one year old in 1997 were: tuberculosis, 100%; diphtheria, pertussis, and tetanus, 97%; polio, 97%; and measles, 97%.

Tobacco consumption has increased from 1.9 kg (4.2 lbs) in 1984–86 to 2.1 (4.6 lbs) kg a year per adult in 1995. There were more than 160,000 cardiovascular disease deaths in the mid-1990s. As of 1999, the number of people living with HIV/AIDS was estimated at 7,000 and deaths from AIDS that year were estimated at 350. HIV prevalence was 0.02 per 100 adults.

## 42 HOUSING

Inadequate housing has been a serious problem since World War II. Romanian housing suffered from the 1940 earthquake, war damage, neglect, and inadequate repair and maintenance after the war. An increase in the urban population caused by industrialization and emphasis on capital construction exacerbated the problem. Since 1965, the government has encouraged private construction by state support in the form of credits and expertise. However, an uncertain economy means that homeownership is too expensive for most citizens and maintenance for existing properties has been poor.

In 1999, the total housing stock was at about 7.88 million units, serving a population of about 22.46 million people. Most dwellings were detached houses of two or three rooms. The vast majority of all residential units are in serious disrepair. Overcrowding is common and access to basic amenities of piped water and sanitation facilities is still somewhat limited.

## 43 EDUCATION

For the year 2000, adult illiteracy was estimated at 1.8% (males, 0.9%; females, 2.7%). In 1948, the government established compulsory education for at least four years in rural areas and for seven years in urban areas, with the hope that the seven-year school would be general. A decree of 30 September 1961 provided for the transition to an eight-year general, compulsory, and free education for children between 7 and 15 years of age; since 1968, the compulsory span has lengthened to 10 years. According to the Education Law of 1978, Romania's educational system consists of preschool (ages three–six), primary school (grades one–four), gymnasium (grades five–eight), lyceum or college in two steps (each consisting of two years), vocational schools and schools for foremen, higher education, and postgraduate education. The number of years of primary school was reduced from eight to four in 1989, and the number of years of secondary school was correspondingly increased from four to eight. As of 1999, public expenditure on education was estimated at 4.4% of GDP.

In 1997, there were 6,188 primary schools with 1,405,308 students and a total teaching staff of 71,829. Student-to-teacher ratio stood at 20 to 1. At the secondary level in 1997, students numbered 2,212,090, and teachers totaled 175,958. The pupil-teacher ratio at the primary level was estimated at 19 to 1 in 1999. In the same year, 93% of primary-school-age children were

enrolled in school, while 76% of those eligible attended secondary school. Institutions of higher learning had 263,310 students and 26,310 teachers in 1997.

Admission to an advanced institution depends on a variety of factors, including the student's social background. Over half the students receive government assistance. Yearly quotas are established by the Ministry of Education according to manpower needs. Students in some fields must first complete six months of practical work in industry or agriculture.

In 1959, the Romanian Victor Babes University (founded 1919) and the János Bolyai University (1945) for Hungarian minority students, both in Cluj-Napoca, were merged into the Babes-Bolyai University in order to strengthen "socialist patriotism." There are six other universities—in Bucharest (founded in 1864), Brasov (1971), Craiova (1966), Galati (1948), Iasi (1860), and Timisoara (1962).

Like the other formerly Communist countries, Romania has emphasized polytechnic education in recent years. This "link of education with life" in the early grades means studying practical subjects; however, beginning in the upper grades there are work programs, often directly in enterprises, in workshops, or on collective farms, depending on the locality.

## 44 LIBRARIES AND MUSEUMS

In 2002, the National Library, in Bucharest, held over 8.8 million volumes. In 1997, the country had over 2,950 public libraries holding a total collection of 50.5 million volumes. The largest of the latter are the university libraries at Bucharest, Iasi, and Cluj-Napoca, holding 1.4, 3.0, and 3.6 million volumes, respectively.

Romania has some 400 museums. Bucharest is home to many of the most important museums, including the National History Museum of Romania, the National Museum of Art, and the newer Historical Museum of Bucharest (founded in 1984) and Cotroceni National Museum (1991), featuring Romanian fine art, architecture, and decorative art.

Also in the capital are the Cecilia and Frederick Storck Museum, highlighting the works of Karl Storck, a great Romanian sculptor, and his family, also prominent artists; the Curteo Veche Museum, featuring archaeological exhibits and housed in a 15th-century palace; and the Museum of Romanian Literature.

## 45 MEDIA

There were 3.7 million main line telephone subscribers in 1997 and a 1999 report includes an additional 645,500 mobile cellular phones in use. The telephone system was one of the worst in Europe, with a penetration level of only around 14%—as low as 3 to 4% in some areas. In 1997, the country announced plans to begin privatizing the state telecommunications company, Rom Telecom. As of 2000, however, about 640,000 were still on the waiting list for service, with waits lasting an average of 3 years. As of 1998, there were 40 AM and 202 FM radio broadcasting stations. A 1995 report indicated there were 48 television stations. In 2000 there were 334 radios and 381 television sets for every 1,000 people. The same year there were only about 31 personal computers in use for every 1,000 people. There were 38 Internet service providers in 2000 with 800,000 Internet users in 2001.

The leading daily newspapers (with 2002 circulation figures) are *Evenimentul Zilei* (*Events of the Day*, 200,000); *Adevarul de Cluj* (*Truth of Cluj*, 200,000); *Romania Libera* (*Free Romania*, 100,000); *Adevarul* (*Truth*, 85,000); and *Libertatea* (*Liberty*, 75,000).

Though the constitution provides for freedom of expression and prohibits censorship, it is illegal to "defame" the country. Journalists are prosecuted under this law and sentenced to prison terms.

## 46 ORGANIZATIONS

Economic organizations concerned with Romania's internal and external economic activities include the Romanian Chamber of Commerce and Industry of Romania. In 1992 the Council for National Minority Affairs was formed for the discussion of minority issues. The organization helps the government formulate policies favorable to the minorities of the country. The body is headed by the Secretary General of the government. Representatives from 16 officially recognized minorities groups and 12 government ministries make up the organization.

There are also many cooperatives in key sectors of the economy. Many Romanian farmers belong to the private Farmers' Federation. In total there are 4,000 farming cooperatives and 41 district unions. A large cooperative located in the manufacturing and consumers sectors of the economy is the Central Union of Commerce and Credit Cooperative. In total, there are over 2,500 production and 850 credit cooperatives. Another important cooperative is the Central Union of Handi Craft Cooperatives. There is also an active Association for the Protection of Consumers.

The Romanian Academy was founded in 1866 to promote public interest, education, and research in scientific fields. Civitas Foundation for the Civil Society, established in 1992, sponsors community development and social programs promoting an open, democratic society. Other social action groups include the League for the Defense of Human Rights in Romania and the Women's Association of Romania. The Red Cross is active.

National youth organizations include the Free Youth Association of Bucharest, the League of Students, National Union of Independent Students of Romania, Romanian Council of Churches-Youth Unit, The National Scout Organization of Romania, and YMCA/YWCA.

## 47 TOURISM, TRAVEL, AND RECREATION

The Romanian tourist industry, like its other state monopolies, is undergoing privatization. The Carpathian Mountains, the Black Sea coast, and the Danube region are being developed to attract and accommodate larger numbers of tourists. Major tourist attractions include many old cities and towns (Brasov, Constanta, Sibiu, Sighisoara, Suceava, Timisoara, and others) and more than 120 health resorts and spas. The monasteries in Bukovina are famous for their exterior frescoes. Castle Dracula, the castle of Prince Vlad of Walachia, has been a tourist attraction since the 1970s.

Popular sports are soccer, skiing, hiking, swimming, canoeing, wrestling, handball, and gymnastics. Between 1965 and 1984, Romanian athletes won 176 Olympic medals (48 gold, 52 silver, and 76 bronze). Romania was the only Socialist country to send athletes to the 1984 games in Los Angeles; all the others, following the USSR's lead, boycotted these games. All visitors to Romania must have a visa, obtainable from Romanian embassies abroad or at border stations.

In 1998 tourist arrivals numbered 2,965,707. Tourism payments totaled \$359 million that year. There were 95,404 hotel rooms with 199,333 beds and an occupancy rate of 35%.

In 2002, the US government estimated the daily cost of staying in Bucharest at \$220. Travel expenses elsewhere in the country were estimated at \$111 per day.

## 48 FAMOUS ROMANIANS

Perhaps the most famous historical figure in what is now Romania was Vlad (1431?–76), a prince of Walachia who resisted the Turkish invasion and was called Tepes ("the impaler") and Dracula ("son of the devil") because of his practice of impaling his enemies on stakes; he was made into a vampire by Bram Stoker in his novel *Dracula*. The first leader of Communist Romania was Gheorghe Gheorghiu-Dej (1901–65), who held the

office of premier from 1952 to 1955 and of president of the State Council from 1961 until his death. Nicolae Ceausescu (1918–89) was general secretary of the Communist Party between 1965 and 1989 and head of state from 1967 to 1989; his wife, Elena (1919–89), was a member of the Permanent Bureau of the Executive Committee of the Communist Party.

Ion Heliade-Radulescu (1802–72) founded the Bucharest Conservatory and the National Theater and became first president of the Romanian Academy. Mihail Kogalniceanu (1817–91), a leading statesman in the early Romanian monarchy, inaugurated modern Romanian historiography. Vasile Alecsandri (1821–90) was a leader of the traditionalist school of writers, which sought its inspiration in the Romanian past rather than in imitations of foreign writers. Mihail Eminescu (1850–89) is regarded as an outstanding poet, famous for romantic lyricism. His friend Ion Creanga (1837–87) drew from folklore and wrote with a gaiety and gusto recalling Rabelais. The nation's greatest playwright was Ion Luca Caragiale (1852–1912), who excelled in social comedy; an internationally famous Romanian-born playwright, Eugène Ionesco (1912–94), settled in Paris in 1938. Mihail Sadoveanu (1880–1961) was an important novelist in the period between the two world wars. Romanian-born Elie Wiesel (b.1928), in the United States from 1956, is a writer on Jewish subjects, especially the Holocaust, and a winner of the Nobel Peace Prize in 1986. Romanian-born Mircea Eliade (1907–86) was a scholar in comparative religion and comparative mythology, in the United States from 1948. Romanian-born Tristan Tzara (1896–1963), a literary and artistic critic who settled in Paris, was one of the founders of Dadaism. Nicolae Grigorescu (1838–1907) and Ion Andreescu (1850–82) were leading painters, as was Theodor Aman (1831–91), a modern artist and founder of the School of Fine Arts in Bucharest. Sculpture was greatly advanced by Constantin Brâncusi (1876–1957). Perhaps the greatest names Romania has given to the musical world are those of the violinist and composer Georges Enescu (1881–1955), known for his *Romanian Rhapsodies*, and the pianist Dinu Lipatti (1917–50). A prominent tennis player is Ilie Nastase (1946–94); gymnast Nadia Comaneci (b.1961) won three gold medals at the 1976 Olympics.

## 49 DEPENDENCIES

Romania has no territories or colonies.

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# RUSSIA

Russian Federation  
*Rossiyskaya Federatsiya*

**CAPITAL:** Moscow

**FLAG:** Equal horizontal bands of white (top), blue, and red.

**ANTHEM:** *Patriotic Song*.

**MONETARY UNIT:** The rouble (R) is a paper currency of 100 kopecks. There are coins of 1, 2, 3, 5, 10, 15, 20, and 50 kopecks and 1 rouble, and notes of 100, 200, 500, 1,000, 5,000, 10,000 and 50,000 roubles. R1 = \$0.0322 (or \$1 = R31.10) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1–2 January; Christmas, 7 January; Women's Day, 8 March; Spring and Labor Day, 1–2 May; Victory Day, 9 May; State Sovereignty Day, 12 June; Socialist Revolution Day, 7 November.

**TIME:** 3 PM Moscow = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Russia is located in northeastern Europe and northern Asia. It is the largest country in the world—slightly less than 1.8 times the size of the United States, with a total area of 17,075,200 sq km (6,592,771 sq mi). Russia shares boundaries with the Arctic Ocean on the N, northern Pacific Ocean on the W, China, Mongolia, Kazakhstan, the Caspian Sea, Azerbaijan, Georgia on the S, and the Black Sea, Ukraine, Belarus, Latvia, Estonia, Finland on the W with a total land boundary of 19,990 km (12,421 mi) and a coastline of 37,653 km (23,396 mi). Russia's capital city, Moscow, is located in the eastern part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Russia features a broad plain with low hills west of the Ural Mountains with vast coniferous forests and tundra in Siberia. There are uplands and mountains along the southern border region. Despite its size, only a small percentage of Russia's land is arable, with much of it too far north for cultivation.

## <sup>3</sup>CLIMATE

Most of the country has a continental climate, with long, cold winters and brief summers. There is a wide range of summer and winter temperatures and relatively low precipitation. January temperatures are in the range of 6°C (45 °F) on the southeastern shore of the Black Sea. A record low temperature of -71°C (-96 °F) was recorded in 1974 at the northeast Siberian village of Oymyakon, the lowest temperature ever recorded anywhere in the world for an inhabited region. In many areas of Siberia the soil never thaws for more than a foot.

Annual precipitation decreases from about 64–76 cm (25–30 in) in the European region to less than 5 cm (2 in) a year in parts of Central Asia. The tundra has long winters, with summers lasting one or two months, and receives from 8 to 12 months of snow or rain. The far northern forest, like most of the country, has long severe winters, short summers, and extremely short springs and autumns. Precipitation is low but falls throughout the

year, varying from 53 cm (21 in) at Moscow to between 20 and 25 cm (8–10 in) in eastern Siberia. The steppes have very cold winters and hot, dry summers.

## <sup>4</sup>FLORA AND FAUNA

Russia has several soil and vegetation zones, each with its characteristic flora and fauna. Northernmost is the so-called arctic desert zone, which includes most of the islands of the Arctic Ocean and the seacoast of the Taymyr Peninsula. These areas are characterized by the almost complete absence of plant cover; only mosses and lichens are to be found. Birds and mammals associated with the sea (sea calf, seal, and walrus) are typical of this zone.

The tundra, which extends along the extreme northern part of Asia, is divided into arctic, moss-lichen, and shrubby tundra subzones. Only dwarf birches, willows, lichens, and mosses grow in the thin layer of acidic soil. Indigenous fauna include the arctic fox, reindeer, white hare, lemming, and common and willow ptarmigan.

South of the tundra is the vast forest zone, or taiga, covering half of the country; the soil here is podzolic. The northern areas of this zone are characterized by the alternation of tundra landscape with sparse growth of birches, other deciduous trees, and spruce. Farther south are spruce, pine, fir, cedar, and some deciduous trees. There are subzones of mixed and broadleaf forests on the Great Russian Plain in the southern half of the forest zone. Wildlife in the taiga include moose, Russian bear, reindeer, lynx, sable, squirrel, and among the birds, capercaillie, hazel-grouse, owl, and woodpecker. In the broadleaf woods are European wild boar, deer, roe deer, red deer, mink, and marten.

Farther south is the forest-steppe zone, a narrow band with the boundaries of the Great Russian plain and the West Siberian low country. Steppes with various grasses alternate with small tracts of oak, birch, and aspen. Still farther south, the forest-steppe changes to a region of varied grasses and small plants. The black and chestnut soils of this zone produce the best agricultural land in Russia. Typical mammals are various rodents (hamsters and

jerboas); birds include skylarks, cranes, eagles, and the great bustard.

In the semi-desert zone, plant cover includes xerophytic grasses and shrubs. Typical animals are the wildcat and saiga antelope; lizards, snakes, and tortoises are common. The semi-desert areas and the deserts of Central Asia and Kazakhstan make up a separate subregion.

## 5 ENVIRONMENT

Decades of Soviet mismanagement have resulted in the catastrophic pollution of land, air, rivers, and seacoasts, although the USSR did manage reforestation with some success. Air pollution is especially a problem in the Urals and Kuznetsk (where vast populations are exposed to hazardous emissions from metal-processing plants) as well as in the Volga and Moscow regions. In 1992 Russia had the world's third highest level of industrial carbon dioxide emissions, which totaled 2.1 billion metric tons, a per capita level of 14.11 metric tons. In 1996, the total dropped to 1.5 billion metric tons.

About 75% of Russia's surface water is unsuitable for drinking. The Volga River has been damaged through rash exploitation of hydroelectric power. Lake Baikal is the largest fresh water reservoir in the world, but has been heavily polluted through agricultural and industrial development. Accidental and intentional dumping of radioactive materials in the 1950s and 1960s had left several areas still uninhabitable as of 1990.

About 3.1% of Russia's total land area was protected as of 2001. The same year, there were 31 mammal species, 38 bird species, and 129 species of plants listed as threatened. Endangered species include Atlantic sturgeon, beluga, crested shelduck, Amur leopard, Siberian tiger, Mediterranean monk seal, Wrangel lemming, and the Oriental stork. The great auk, Palla's cormorant, and Steller's sea cow have become extinct.

## 6 POPULATION

The population of Russia in 2003 was estimated by the United Nations at 143,246,000, which placed it as number 8 in population among the 193 nations of the world. In that year approximately 13% of the population was over 65 years of age, with another 18% of the population under 15 years of age. There were 88 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.57%, with the projected population for the year 2015 at 133,429,000. The population density in 2002 was 8 per sq km (22 per sq mi). Distribution is unequal; the rural areas are very sparsely populated.

It was estimated by the Population Reference Bureau that 78% of the population lived in urban areas in 2001. The capital city, Moscow, had a population of 9,314,000 in that year. Other large urban areas include St. Petersburg (formerly Leningrad), 5,132,000; Novosibirsk, 1,476,000; Nizhniy Novgorod (formerly Gorkiy), 1,461,000; Yekaterinburg (formerly Sverdlovsk), 1,420,000; Samara (formerly Kuybyshev), 1,260,000; Omsk, 1,214,000; Chelyabinsk, 1,183,000; Kazan, 1,135,000; Ufa, 1,138,000; Perm, 1,117,000; Rostov-on-Don, 1,048,000; Volgograd, 1,021,000; Krasnoyarsk, 975,000; Voronezh, 938,000; and Saratov, 917,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.2%.

## 7 MIGRATION

During 1979–88, Russia gained 1,747,040 people through net migration from other Soviet republics. Germany took in 156,299 former Soviet Germans in 1991. As of May, 1996, there were still 75,000 internally displaced persons from the Chernobyl accident in 1986. Following the military conflicts in Chechnya of 1994, 220,000 people fled to the neighboring republics of Dagestan, Ingushetia, and North Ossetia. Between 1989–95, 169,000 Russians returned from Azerbaijan, and 296,000 returned from

Kyrgyzstan. Between 1991–95, 50,000 Russians returned from Belarus; 614,000 returned from Kazakhstan; and 300,000 from Tajikistan. In 1991 400,000 returned from Uzbekistan, and 100,000 returned from Turkmenistan from 1993–95. As of May, 1996, there were an estimated 250,000 trafficked migrants from Asia (mainly from China and Sri Lanka) waiting for traffickers to arrange their travel to the United States from Russia. As of 1999, there were 400 refugees, 10,000 asylum-seekers, 173,000 internally displaced people (mainly from Chechnya and Ingushetia), and an estimated 3.5 to 4 million forced migrants. In 1999 the net migration rate was 2.05 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The most recent estimates indicate that 81.5% of the population is Russian. Tatars constitute 3.8%; Ukrainians make up 3%; Chuvash form 1.2%; Bashkir account for 0.9%; Belarussian for 0.8%; Moldavian for 0.7%; and a wide variety of other peoples are represented in the remaining 8.1%.

## 9 LANGUAGES

About 90% of the population speaks Russian, a member of the eastern group of Slavic languages. It is highly inflected, with nouns, pronouns, and adjectives declined in six cases. There are three grammatical genders. The language is written in the Cyrillic alphabet of 33 letters and has been written since about 1000 AD. In addition, a wide variety of other Slavic, Finno-Ugric, Turkic, Mongol, Tungus, and Paleo-Asiatic languages also are spoken. In the republic of Dagestan alone, two million people share 28 languages, 14 of which are unwritten. The breakup of the Soviet Union has produced a surge in regional autonomy and a backlash against the Russian language and the Cyrillic alphabet in many of Russia's 21 republics. Tatarstan, for example, is considering a reintroduction of the Latin script for Tatar, while Buriatia may restore Old Mongol lettering for Buriat. Stalin imposed the Cyrillic alphabet on Russia's minority groups in an effort to make Russian the national language.

## 10 RELIGIONS

The Russian Orthodox Church (ROC) dates back to the "Kievan Rus" period (the first organized Russian state). In 988, Prince Vladimir, in order to gain an alliance with the powerful Byzantine Empire, declared Christianity as the religion of his realm, and mandated the baptism of Kiev's population and the construction of cathedrals. During the Mongol occupation (1240–1480), the head of the ROC (Metropolitan) was moved to Moscow. Throughout the reign of the tsars, Orthodoxy was synonymous with autocracy and national identity. After the Communist revolution of 1917, the Soviet government, based on Marxism, imposed a dogma of militant atheism and subordinated the ROC through fear and persecution. Other Christians, Muslims, and Jews were also oppressed (anti-Semitism was widespread before and after the 1917 revolution). Since 1985 and the subsequent dissolution of the Soviet Union, thousands of churches have been reopened; freedom of religion was incorporated into the draft constitution of 1993.

According to a 2001 report from the Ministry of Justice, there are about 20,215 registered religious groups in the country. The Russian Orthodox Church had the largest number, with about 10,912 groups. Islam is the largest minority religion, with about 3,048 registered groups and, perhaps, over a thousand unregistered groups. Protestants make up the third largest group of the country with a variety of denominations, including Baptists, Lutherans, Methodists, Presbyterians, the Church of Christ, and others. There are about 197 Jewish registered groups, with an estimated 600,000 to 1,000,000 Jews in the country. There are 106 registered groups of Hare Krishnas. Hindus, Scientologists, Christian Scientists, Taoists, Baha'is, Zoroastrians,



LOCATION: 60°0' N; 30°0' E. BOUNDARY LENGTHS: Total land boundary lengths, 20,139 kilometers (12,514 miles); Azerbaijan, 284 kilometers (177 miles); Belarus, 959 kilometers (596 miles); China (southeast), 3,605 kilometers (2,240 miles); China (south), 40 kilometers (25 miles); Estonia, 290 kilometers (180.2 miles); Finland, 1,313 kilometers (816 miles); Georgia, 723 kilometers (450 miles); Kazakhstan, 6,846 kilometers (4,254 miles); North Korea, 19 kilometers (12 miles); Latvia, 217 kilometers (135 miles); Lithuania, 227 kilometers (141 miles); Mongolia, 3,441 kilometers (2,138 miles); Norway, 167 kilometers (104 miles); Poland, 432 kilometers (268 miles); Ukraine, 1,576 kilometers (980 miles); total coastline 37,653 kilometers (23,398 miles). TERRITORIAL SEA LIMIT: 12 miles.

Buddhists, Karaites, and Shamanists are also represented with one to 20 groups each. There are about 41 registered pagan groups.

## 11 TRANSPORTATION

Russia's transportation system is extensive, but is in a state of general decay. Maintenance, modernization, and expansion are required for Russia's infrastructure, much of which operates beyond capacity.

Railroads have long been an important means of transportation in Russia. In the 1890s, a vast state-sponsored program of railway construction commenced, with the goal of nurturing private enterprise, exploiting natural resources, and expanding heavy industry (especially metallurgy and mineral fuels). The Trans-Siberian Railroad was the cornerstone of this development; from 1898-1901, more than 3,000 km (1,900 mi) of track were constructed per year. Railroad development also figured prominently during the Soviet era. Railways in 2001 extended some 87,157 km (54,160 mi), primarily with 1.52 m-gauge track.

There were 952,000 km (591,573 mi) of highways in 2002, of which 752,000 km (467,293 mi) were paved. Compared with other developed countries, Russia has few passenger cars on the road, but many imports from Europe are increasingly arriving in Russia. Russia's ratio of population per car is more than six times that of Western Europe.

Marine access has been important to Russia ever since the construction of St. Petersburg was ordered by Peter the Great on the marshland adjoining the Gulf of Finland, in order to provide imperial Russia with a "window on the west." Other important maritime ports include Kaliningrad, on the Baltic Sea; Murmansk and Arkhangel'sk, both on the Barents Sea; Novorossiysk, on the Black Sea; Vladivostok and Nakhodka, both on the Sea of Japan; Tiksi on the Laptev Sea; and Magadan and Korsakov on the Sea of Okhotsk (the latter is on Sakhalin). Major inland ports include Nizhniy Novgorod, Kazan', Khabarovsk, Krasnoyarsk, Samara, Moscow, Rostov, and Volgograd. The merchant fleet consisted in 2002 of 888 ships (of 1,000 GRT or over), totaling 4,390,745 GRT (5,357,436 DWT). Almost three-fifths of the merchant fleet consists of cargo vessels. Early in the 21st century, a new port is scheduled to be built in the Batareynaya Harbor of the Baltic Sea

about 70 km (43 mi) southwest of St. Petersburg. The new facility will handle oil shipments.

In 2001, Russia had 2,743 airports and airfields, 471 of which had paved runways. Principal airports include Novy at Khabarovsk, Sheremetyevo and Vnukovo at Moskva, Tolmachevo at Novosibirsk, Rostov-Na-Donu, Pulkovo at St. Petersburg, Adler at Sochi, and Yekaterinburg at Coltsovo. In 2001, 20,235,100 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

The history of Russia is usually dated from the 9th century AD when a loose federation of the eastern Slavic tribes was achieved under the legendary Rurik. At this time, Kiev was the political and cultural center. Vulnerable due to the flat land that surrounded them, the Kievan rulers sought security through expansion—a policy that subsequent Russian leaders frequently pursued.

By the 11th century, Kievan Rus had united all the eastern Slavs. However, over the next two centuries, Kievan dominance was eroded by other Slavic and non-Slavic centers of power. The Mongol conquest of Russia marked the eclipse of Kiev as a center of power. When Mongol power declined and collapsed in the 14th and 15th centuries, it was Moscow that emerged as the new Russian power center. The military victories of Grand Duke Ivan III (r. 1462–1505) in particular established Moscow's predominance over almost all other Russian principalities. In 1547, Grand Duke Ivan IV was crowned as the first "Tsar of All the Russians."

When the Rurik dynasty died out in 1598, Russia experienced internal political turmoil and territorial encroachment from the West. In 1618, the first of the Romanovs was crowned tsar, and Russia set about regaining the territory it had lost. In the 17th century, Russian power expanded across Siberia to the Pacific Ocean. During the reign of Peter I (r. 1682–1725), Russian power was extended to the Baltic Sea in the early 18th century. It was under Peter that the Russian capital was moved from Moscow to St. Petersburg, on the Baltic Sea.

Russian power expanded further into Europe and Asia during the 18th century. The French Emperor, Napoleon, attacked Russia in 1812. Despite the considerable advances that he made, he was forced to withdraw from Russia and back across Europe in 1814. By the end of the Napoleonic wars in 1815, Russia had acquired Bessarabia (Moldova), Finland, and eastern Poland.

Russia's European borders remained relatively stable in the 19th century. It was during this period, though, that Russia completed its conquest of the Caucasus, Central Asia, and what became its Maritime Province (Vladivostok).

From the rise of Moscow after the Mongols until the early 20th century, Russia was ruled as an autocracy. Peter I founded a senate, but this was an advisory and honorific body, not a legislative one.

Some reform was made. Alexander II (r. 1855–81) emancipated the serfs of Russia in 1861. Alexander II appeared to be embarking on a course of political reform involving elections when he was assassinated by revolutionaries in 1881. Alexander III (r. 1881–94), his son, ended political reform efforts and reverted to autocratic rule. Under him, however, economic development made considerable progress in Russia.

The autocratic nature of Tsarist rule generated growing opposition in Russia, beginning with the abortive "Decembrist" uprising of 1825. By the reign of the last tsar, Nicholas II (r. 1894–1917), many opposition groups had arisen. With the Tsarist regime's weakness evident as a result of its defeats in the 1905 Russo-Japanese War, a revolutionary movement grew up in Russia that same year. Under the leadership of the socialists, revolutionary "soviets" or councils seized power in parts of St. Petersburg and Moscow. The government was able to defuse the

revolutionary impetus through promising an elected Duma (legislature). The First Duma (1906) met only briefly; its demands for land reform were unacceptable to the tsar, who dissolved it. The Second Duma (1907) was also dissolved shortly after it was convened. A Third Duma (1907–11) and Fourth Duma (1912–17) were elected on more restrictive franchises. While the Third Duma in particular made some progress in economic and social reform, the Tsar and his ministers retained firm control over the government.

It was Russia's disastrous involvement in World War I that led to the end of the monarchy. By early 1917, Russia had suffered a number of defeats in its struggle with superior German forces. The war and continued autocratic rule had grown increasingly unpopular. Riots broke out in the major cities in March 1917. The Tsar attempted to dissolve the Fourth Duma, but it refused to be dissolved. "Soviets" again rose up in Petrograd (St. Petersburg had been renamed in 1914) and Moscow. Nicholas II was forced to abdicate on 15 March 1917.

A Provisional Government, based on the old Fourth Duma, was declared. But its authority was challenged by the Soviets. In addition, the Provisional Government refused to end Russia's involvement in the war. This was seen as a major decision, which only a duly elected government could make. Over the course of 1917, the Mensheviks (socialists) increasingly gained control over the Provisional Government but lost control over the Soviets to the Bolsheviks, led by Vladimir Lenin. On the night of 6 November 1917, the Bolsheviks seized control of St. Petersburg.

Elections for a Constituent Assembly organized by the Provisional Government did take place on 25 November 1917—Russia's freest elections until the 1990s. Only 168 of the 703 deputies elected were Bolsheviks. The Constituent Assembly convened on 18 January 1918, but was prevented from meeting again by Bolshevik forces.

Lenin moved quickly to end Russia's involvement in World War I. In March 1918, he agreed to a peace treaty with Germany, which deprived Russia of considerable territory (it was at this time that the Bolsheviks moved the capital back to Moscow). From 1918 to 1921, the Bolsheviks fought a civil war against a large number of opponents, whom they defeated. After the German surrender to the Western powers in November 1918, Lenin's forces moved to take back the territory it had given up. Except for Finland, Poland, the Baltic States (temporarily), and Bessarabia (Moldova), Lenin's forces succeeded in regaining what they had given up.

The Bolshevik regime was based on Marxist-Leninist ideology. It sought to overthrow the rule of economic "oppressors" (the aristocracy and the bourgeoisie) and replace it with rule by the proletariat. There were two main concepts in Lenin's political theory: the dictatorship of the proletariat, and democratic centralism. In Lenin's view, the working class had to impose dictatorial rule over its class enemies to prevent them from regaining power. But within the instrument of this class dictatorship—the Communist Party—there was to be freedom of debate. Once a policy question had been resolved, however, debate was to cease.

Theoretically, power in the Communist Party was vested in an elected party congress, which then elected a smaller Central Committee, which in turn elected an even smaller Politburo to run day-to-day affairs. In fact, it was the top party leadership—Lenin and his Politburo colleagues—who established and maintained dictatorial control.

After the civil war, Lenin relented on his ambitious plans for the state to control the entire economy. He ushered in the New Economic Policy (NEP), which allowed peasants to own land and sell their produce at market, and permitted private business to operate (though the state retained control of large enterprises). Lenin died on 21 January 1924. A power struggle among the top Communist leaders broke out. By 1928, Joseph Stalin had

eliminated all his rivals and achieved full power. He then ended NEP and ushered in a brutal period of forced industrialization and collectivization of agriculture. Stalin's rule was especially harsh in the non-Russian republics of the USSR. Scholars estimate that as many as 20 million Soviet citizens died during the 1928–38 period either because of state terror or famine.

In August 1939, the infamous Nazi-Soviet pact was signed dividing Eastern Europe into spheres of influence. Under this agreement, the USSR regained most of the territories that had belonged to the Russian Empire but had been lost during the Russian Revolution (eastern Poland, the Baltic states, and Bessarabia [Moldova]). But on 22 June 1941, Hitler's forces invaded the USSR and Moscow quickly lost all the territory that it had recently gained. German forces reached the outskirts of Moscow. With the help of massive materiel shipments from the United States and other Western countries, Soviet forces were able to rally and drive the Germans back. By the end of the war in May 1945, the USSR had reconquered everything it lost. With the Red Army in Eastern Europe, Stalin was able to establish satellite Communist regimes in Poland, Czechoslovakia, Hungary, Romania, Bulgaria, and East Germany. (Communist regimes also came to power in Yugoslavia and Albania, but did not remain allied to Moscow.)

Stalin's rule was especially harsh during the last years of his life. He died in 1953 and the ensuing power struggle was eventually won by Nikita Khrushchev. Khrushchev ended the terror of the Stalin years, but the basic features of the Stalinist system (Communist Party monopoly on power, centralized economy allowing for little private initiative, limited opportunities for free expression) remained until Mikhail Gorbachev came to power in March 1985.

Realizing that the old Stalinist system had led to a stagnant economy, which would undermine the USSR's ability to remain a superpower, Gorbachev sought to reform the Communist system. But although greater freedom of expression led to an enhanced understanding of the serious economic and ethnic problems the USSR faced, Gorbachev was unwilling to implement the economic and other reforms necessary to create a free market democracy. The intense division on how to solve the problems faced by the USSR led ultimately to the ultimate dissolution in 1991 of the country into its separate republics.

For the first time, relatively free multi-candidate elections were held in Russia in March 1990. In May 1990, the new Russian Supreme Soviet selected Boris Yeltsin as its chairman. Yeltsin had been an ally of Gorbachev until they disagreed over the pace of reform and Yeltsin was pushed out of the Politburo and his other positions. On 12 June 1991, the first elections to the Russian presidency were held, and Yeltsin won. Yeltsin played the central role in foiling the August 1991 coup attempt by Soviet conservatives against Gorbachev.

On 8 December 1991, Yeltsin, together with the leaders of Ukraine and Belarus, formed the nucleus of the Commonwealth of Independent States (CIS), which spelled the end of the USSR later that month. Like the other former Soviet republics, Russia had become an independent sovereign state.

In early 1992, Yeltsin and his acting-prime minister, Egor Gaidar, sought to introduce rapid economic reform. Price controls were lifted on all but a few items. Prices rose rapidly, and as time passed, public opposition to economic reform grew. The Yeltsin government's relations with the legislature grew increasingly acrimonious. Many of the deputies had close ties with the state-run economy and bureaucracy, which were threatened by economic reform.

Much of Russian politics in 1993 consisted of bitter squabbling between Yeltsin and the legislature. No progress was made on drafting a new constitution to replace the much-amended Soviet-era constitution that still governed Russia.

On 21 September 1993, Yeltsin unilaterally dissolved the Supreme Soviet and introduced rule by presidential decree until new legislative elections and a referendum on his draft constitution could be held on 12 December. Many of the anti-Yeltsin legislators refused to accept Yeltsin's suspension, and barricaded themselves inside the legislature building. On 3 October, forces loyal to the legislature briefly occupied the office of the mayor of Moscow and attempted to seize the Ostankino television center. Forces loyal to Yeltsin, backed by the military, attacked and seized the legislature building. A state of emergency and press censorship were briefly introduced. Yeltsin banned several opposition parties, purged opponents from the government, and reaffirmed his intention to serve out his full term.

The constitutional referendum and legislative elections were held as planned in December 1993. The electorate approved Russia's first post-Communist constitution, which called for a strong presidency. In the legislative elections, though, the Communist and ultra nationalist forces did well. Analysts attribute the Communist's strong showing to popular dissatisfaction with the radical economic reforms that had depressed the economy and left the Russian people at subsistence levels. Only 50% of the electorate turned out to vote. After a hard-fought campaign, Yeltsin won reelection on 3 July 1996 with 54% of the vote. Sixty-seven percent of the voters turned out for the elections.

As Yeltsin struggled to stabilize the government and reform the economy, nationalistic fervor in the "ethnic" republics tore at the fabric of the Russian Federation. War broke out in Chechnya in December 1994 after the rebellious North Caucasus region claimed its independence. The inability of the Russian military to subdue the region led to a withdrawal of Russian forces in late 1996. The bloody and unpopular conflict ultimately led Yeltsin to sign a peace treaty with Chechen leader Aslan Maskhadov on 12 May 1997. The agreement deferred a decision on the region for five years. In the meantime, Russia claimed the region remained a part of the Russian Federation, while Chechnya (called Ichkeria by the rebels) claimed it was already independent.

Russia's position in the world was further weakened in 1997 when three of its former satellites (Hungary, Poland, and the Czech Republic) were admitted to NATO effective in 1999. Romania and Slovenia were in line to join next. Russia, initially opposed to the new admissions, ultimately signed a pact for mutual cooperation with NATO on 27 May 1997. The pact established a new NATO-Russia council for consultation on security issues and NATO assured Russia that it had no plans to deploy nuclear weapons on the territories of any new members. For its part, Russia pledged its commitment to transforming itself into a democracy. Seeking also to improve relations with Ukraine, on 31 May 1997, Yeltsin signed a treaty of "friendship, cooperation, and partnership" with Ukraine's president Leonid Kuchma. The agreement affirmed that the Russian-populated Crimean peninsula was indeed part of Ukraine. At issue was ownership of the old Soviet Black Sea Fleet and use of the naval port at Sebastopol. Under the agreement, Russia took 80% of the fleet and a 20-year lease on Sebastopol's main bays. In addition to affirmation of its territorial borders, Ukraine will receive US\$100 million a year in rent for the bays.

Yeltsin dismissed his entire cabinet in March 1998, causing the currency to take a one-day dip. In August 1998, the Russian currency collapsed, and the country experienced the worst harvest in 45 years. The government defaulted on US\$40 billion in ruble bonds, and the banking system experienced a swift decline. Losses during 1999 were estimated at two billion dollars per month. In February 1999 Prime Minister Primakov met with IMF officials to reschedule debt payment aid. Accounts of large-scale money laundering were reported in both 1998 and 1999 by Russian mobsters and offshore money-laundering operations.

The Russian Central Bank had used the ruble to prop up defunct parastatals, and the banks were lending money from state coffers that were empty to begin with. The lack of active currency prompted the downward spiral of the entire economy.

The conflict with Chechnya never really ended, despite the peace agreement in 1997. In March 1999 a bombing in the city of Vladikavkaz killed 62 and wounded 100 more. Russian officials blamed Chechnyan rebels, but had no conclusive evidence. Three apartment buildings were bombed in Moscow and two more were bombed in southern cities in September 1999, resulting in 300 fatalities. Russia retaliated by staging a two-week air campaign of bombings and missile attacks on Grozny, the capital of Chechnya. The war with Chechnya raged on through the summer of 2000, climaxing with a bomb attack in a Moscow subway that killed 11 and wounded many others. It was estimated that about one dozen Russian fighters lost their lives daily on the Russian-Chechnyan border during 1999. This was not the only front on which Russia showed a military presence: Yeltsin called for the removal of NATO from Yugoslavia in early 1999, but his bark was stronger than his bite.

President Yeltsin resigned in December 1999, under allegations of financial crimes and from ailing health. Supported by the former president, Vladimir Putin was elected to the executive. The political clout of this new president was called into question, as well as his policies, because he installed a resurgence in the Kremlin's power. Vladimir Gusinsky, owner of the only private national television station (substantially backed by corporate Russia), was jailed on 13 June 2000 on a trumped up allegation of fraud while Putin was on vacation. International observers claimed that the move (and others instigated by the three-month old government) harkened back to the days of the KGB. But controlling the public voice was not on Putin's agenda as he imposed corporate taxes on the largest of the country's monopolies, in gas and automobile production. In the beginning of August, all charges were dropped against Mr. Gusinsky. Both Putin's domestic and foreign affairs were in order after a winter of cabinet restructuring. April 2000 saw the ratification of the START II treaty. In June of 2000, President Clinton and President Putin were stymied over the Clinton administration's plans to begin a missile defense project. Both Russia and China threatened to reinstate a Cold War-style arms race if the United States continued with its limited defense project.

Following the 11 September 2001 terrorist attacks on the United States, Putin turned Russian foreign policy towards the West. He came out in favor of Russia joining the counterterrorism campaign announced by US president George W. Bush, despite opposition from his own advisors and from the Russian political elite. This shift in policy coincided with a move for closer relations with Europe; Russia became a member of the Council of Europe, and has begun to strengthen its civil society and the rule of law, which will bring it into the good graces of the EU. Russia accepted the arrival of US and coalition troops in some Central Asian (former Soviet) republics in the US-led war in Afghanistan to oust the Taliban regime and the al-Qaeda network. And Russia tacitly accepted the arrival of US Special Forces into Georgia in 2002: the United States wished to combat what it believed to be international terrorists linked to the al-Qaeda network in the Pankisi Gorge region of Georgia. However, on 11 September 2002, Putin announced Russia would take unilateral action against Chechen fighters and international terrorists in the Pankisi Gorge; the United States stated its unequivocal opposition to any such unilateral military action, and that Georgia should address any threats to its security and political stability.

In May 2002, Russia and the United States announced a new agreement on strategic nuclear weapons reduction: operationally deployed strategic nuclear warheads would be reduced by each side to a level of between 1,700 and 2,200 over the next 10 years.

This "Moscow Treaty" was followed by an agreement between Russia and NATO foreign ministers to establish a "NATO-Russia Council" in which Russia and the 19 NATO countries would have an equal role in decision-making on counterterrorism policy and policy on other security threats. The "Moscow Treaty" was counter-balanced by events in June, however, when the United States announced it formally withdrew from the 1972 Anti-Ballistic Missile Treaty, and Russia subsequently pulled out of the START II Treaty.

Concerns about Russia's guarantee of freedom of speech were raised in January 2002, when the last major independent television network in Russia, TV-6, was forced by the government to stop broadcasting. The government claimed the sole reason for the shutdown was bankruptcy, but many were not convinced that Putin's decision was purely business-related. The Russian media are either state-owned or controlled by "oligarchs" such as Boris Berezovsky and Vladimir Gusinsky, and in bringing court cases against these men, the government has taken control of their media outlets, curbing independent reporting and causing a setback to freedom of speech and press.

The conflict with Chechnya intensified in 2002. On 23 October, Chechen separatist rebels seized a theater in Moscow and held some eight hundred hostages for three days. The hostage-takers demanded that Putin withdraw Russian troops from Chechnya. On 26 October, Putin ordered an early-morning raid on the theater, using the gas Fentanyl, a fast-acting opiate that was meant to incapacitate the rebels. As a result of the operation, 117 hostages died, all but one (who died of gunshot wounds) due to the effects of the gas. All 50 of the hostage-takers died. Putin claimed the operation was an unprecedented success, but many wondered about the effectiveness of the raid due to the number of hostages who died. That December, suicide bombers attacked the Grozny headquarters of the pro-Moscow Chechen administration led by Akhmed Kadyrov, and more than 50 people were killed. It was the first use of suicide bombers undertaken by Chechen separatist rebels against Russia, and Putin described the attack as "inhuman." In March 2003, a referendum on a new constitution for Chechnya was approved, stipulating that Chechnya would remain a part of the Russian Federation; many were critical of Russia for holding the referendum before peace was established.

On 8 November 2002, the UN Security Council unanimously passed Resolution 1441, calling upon Iraq to disarm itself of chemical, biological, and nuclear weapons, to allow the immediate return of UN and International Atomic Energy Agency (IAEA) arms inspectors (they had been expelled in 1998), and to comply with all previous UN resolutions regarding the country since the end of the Gulf War in 1991. Arms inspectors began work in Iraq, but the United States and the United Kingdom, in particular, were dissatisfied with the slow pace of inspections, and began to prepare for war. On 19 March 2003, the United States launched air strikes against Iraq, and war began. US-Russian relations were severely tested at the end of 2002 and into 2003, as Russia sided with France and Germany in their opposition to war. As the war was still ongoing in mid-April, however, US, UK, European, and Russian officials were attempting to carve out a plan for Iraq once its leader, Saddam Hussein, would be removed from power. The future role of the UN in lending legitimacy to a new regime was one of the key issues being debated. In mid-April, Putin, who had previously called the war "a big political mistake," was softening his tone toward the United States and the United Kingdom, and stressed the importance of Russia's role in a postwar Iraq. Analysts estimate that in 2003 Iraq had US\$52 billion in contracts with Russia, primarily in energy and communications.

### 13 GOVERNMENT

A new post-Soviet constitution for Russia was approved in a referendum held 12 December 1993. The constitution establishes a bicameral legislature known as the Federal Assembly. The lower house (State Duma) consists of 450 elected deputies while the 178-member upper house (Council of the Federation) is composed of representatives of the provinces and autonomous republics that make up Russia. The president is elected separately for a four-year term.

The president appoints the cabinet and other top government posts subject to confirmation by the legislature. Presidential appointments of prime minister, deputy prime ministers, and chairman of the central bank are subject to confirmation by the State Duma while appointments of high court judges and the prosecutor general are subject to confirmation by the Council of the Federation. The president can refuse to accept the State Duma's rejection of an appointment to the prime ministership. If the State Duma refuses three times to confirm a new prime minister, the president may dissolve the lower house and hold new elections to it. If the State Duma votes twice within three months a no-confidence motion against the prime minister and cabinet, the president may respond either by dismissing the cabinet or dissolving the State Duma. The president, however, cannot dissolve the State Duma due to its passing a no-confidence motion during the first year of the State Duma's term of office. The president may declare war or a state of emergency on his own authority.

Impeachment of the president is provided for in the constitution, but is very difficult. Two-thirds of the State Duma must vote to initiate the impeachment process. Both the Constitutional Court, established to arbitrate any disputes between the executive and legislative branches, and the Supreme Court must review the charges. The findings of all three organizations are then submitted to the Council of the Federation, which can impeach the president by a two-thirds majority vote. This process must be completed within three months from beginning to end.

The State Duma has jurisdiction over the budget and economic policy, most of which must then be approved of by the Council of the Federation. The Council has jurisdiction over issues affecting the provinces and autonomous republics, including border changes and the use of force within the Russian Federation.

### 14 POLITICAL PARTIES

In the elections to the State Duma held 12 December 1993, 225 of the 450 seats were elected on the basis of proportional representation from party lists, which had to receive a minimum of 5% of the national vote to gain representation. The other 225 seats were elected from single member districts.

The party to receive the largest number of seats (76) was the radical reformist Russia's Choice led by Yeltsin's ex-acting prime minister, Egor Gaidar. The centrist New Regional Policy group (which was actually formed by nonaligned deputies from single member districts after the election) won 65. Vladimir Zhirinovskiy's ultra nationalist, antidemocratic Liberal Democratic Party won 63. The pro-Communist Agrarian Party won 55 seats, while the Communist Party of the Russian Federation won 45. Six other parties or blocs (some of which were also formed after the election) won between 12 and 30 seats each.

Deputies to the 178-seat Council of the Federation were elected in two-member districts where they mostly ran as individuals. Of the 171 seats that were filled, only 27 identified themselves with a particular party. The ultra nationalists, Communists, and their sympathizers predominated in the State Duma.

In the December 1995 elections, the Communists again dominated the Duma taking 149 of the 450 seats. They were supported by two left-wing factions, Power to the People (37 seats) and the Agrarians (35), and together were only 5 votes shy of an outright majority. The center-right Our Home is Russia won 50 seats, as did Vladimir Zhirinovskiy's far-right Liberal Democratic Party and Yabloko, the moderate-reformist bloc led by Grigoriy Yavlinsky.

In the December 1999 Duma elections, six parties surmounted the 5% threshold on the party list vote, accounting for over 80% of the votes cast. Three of the six parties or blocs that received seats in the party list vote were created just prior to the election (this did not include the newly formed ultra nationalist Zhirinovskiy bloc, which was essentially a relabeling of his Liberal Democratic Party). Unity ("The Bear") was created in late September 1999 by the Yeltsin government, and the Union of Right-Wing Forces and Fatherland-All Russia in August 1999. In contrast to previous Duma races, many liberal groups (with the major exception of Yabloko) cooperated in forming the Union of Right-Wing Forces electoral bloc to enhance their chances for surmounting the 5% hurdle. The newly formed Unity and Union blocs received crucial publicity when Putin endorsed them. Results from the single member constituency races added some seats to those gained by the six successful parties and provided a few seats for minor parties. In all, the Communist Party won 120 seats, Unity 73, Fatherland 70, Union 29, Yabloko 20, and the Zhirinovskiy bloc 19. Non-party affiliated deputies won 95 seats, and a few seats faced runoffs. A little over one-third of the deputies elected were incumbents from the previous Duma.

In general, the election represented a major loss for Our Home (headed by presidential aspirant and former prime minister Viktor Chernomyrdin), which no longer was a faction in the legislature. Zhirinovskiy's bloc lost more than half its seats, compared to 1995, as did Yabloko. The new Duma convened in January 2000, and in a bold move, Unity and the Communist Party temporarily joined forces to grab the largest number of leadership posts and committee chairmanships.

In the first round of the June 1996 presidential election Aleksandr I. Lebed received 15% of the vote to Mr. Yeltsin's 35%, and Communist party candidate Gennadiy A. Zyuganov's 32%. Mr. Lebed, a retired general viewed by voters as a tough law-and-order strong man, dropped out of the race when Yeltsin named him national security advisor. Lebed gave his support to Yeltsin, which helped Yeltsin win 54% of the vote in the 3 July 1996 election. Two months later, however, Yeltsin forced Lebed out of the government. Yeltsin was barred from running for a third term.

Before the expiration of his term in mid-2000, Yeltsin resigned from office in December 1999. He explained that he had succeeded in preventing the election of a communist-led legislature in just-concluded elections and wanted to make way for his chosen successor, Prime Minister Vladimir Putin. Yeltsin had also faced protracted ill health and international allegations of corruption and money laundering involving his family. In the first round of presidential elections held on 26 March 2000, Putin won about 53% of 75.2 million votes cast for nine candidates. The runner-up, Gennadiy Zyuganov, received 29%, down from the 32% he received in the first round of the 1996 race. At his inauguration on 7 May 2000, Putin stated that he would work to make Russia "a free, prosperous, rich, strong, and civilized country, a country of which its citizens are proud and which is respected in the world."

### 15 LOCAL GOVERNMENT

Russia has a complicated patchwork of regional and local governments. Russia is divided into six krais, 49 oblasts, one autonomous oblast, 10 autonomous okrugs, and two independent cities (Moscow and St. Petersburg). There are also



21 autonomous republics where non-Russian minorities predominate, or used to predominate.

For all but the 21 autonomous republics, President Yeltsin issued decrees reorganizing the system of local government in October 1993. Each unit has an elected legislature. Most of these are unicameral, though two (Magadan Oblast and Altai Krai) opted for bicameral ones. In late 1996 and early 1997, regional popular elections of governors took place, replacing the system of appointments by the president. By contrast, the Russian president never appointed the heads of the 21 autonomous republics. These (usually called presidents) are selected in whatever manner is prescribed by their individual constitutions. The regional and republic executive and legislative heads are ex officio members of the Russian Federal Assembly's upper chamber, the Federation Council, where they endeavor to guard local power against encroachment from Moscow.

In 2000, the administrative units of Russia were grouped into seven regional administrative districts: Northwest, Central, Volga, North Caucasus, Ural, Siberia, and Far East. A presidential representative is appointed to each.

## 16 JUDICIAL SYSTEM

The judicial system is divided into three branches. There are courts of general jurisdiction (including military courts), which are subordinated to the Supreme Court; the arbitration (commercial) court system, which is under the High Court of Arbitration; and the Constitutional Court, which arbitrates any disputes between the executive and legislative branches and determines questions pertaining to constitutional issues. Civil and criminal cases are tried in courts of primary jurisdiction (municipal and regional), courts of appeals, and higher courts.

Procurators are also organized at the district, regional, and federal levels. The head of the procurators, the Procurator General, is nominated by the president and confirmed by the Federal Council. The trials are inquisitorial, not adversarial, and procurators are quite influential in non-jury trials.

## 17 ARMED FORCES

With the collapse of the original CIS in 1992, Russia established a separate Ministry of Defense and military establishment upon the wreckage of the Soviet armed forces. Still formidable in terms of weapons and equipment, the Russian armed forces reached a low state of morale and effectiveness in 1993, "hollowed" by low-manning, the failure of draft calls, diversion to survival tasks rather than training, and lack of discipline. In the following years, military reforms were undertaken. The first phase, completed by the end of 1998, involved reorganization of the military command structure, redistricting, and troop reductions. The second phase, slated for completion in 2001, focused on equipment modernization and operational readiness. Readiness was also improved by 1999 military exercises in response to the NATO bombing of Serbia following hostilities in Kosovo.

In 2002 active Russian armed forces numbered 988,100 personnel including 100,000 women. The reservists numbered some 20,000,000. Strategic deterrent forces have approximately 149,000 personnel, including the strategic missile force troops. The army of 321,000 has a formidable weapons inventory: over 21,000 main battle tanks, 25,975 armored infantry vehicles, 20,746 towed and self-propelled artillery pieces, and 1,700 attack and transport helicopters. Russia has assumed the responsibility of the Soviet Union to reduce by treaty its strategic arsenal and conventional forces in Europe but remains the world's second most formidable nuclear nation. Russia's nuclear arsenal is estimated at 12,000–19,000 strategic and non-strategic weapons.

The Russian navy has surrendered little of its strength to the break-away republics. The navy numbers 171,500 personnel. It controls 53 attack and other types of submarines, 32 principal surface combatants (including 1 carrier and 7 cruisers), 88 patrol

and coastal combatants, 60 mine warfare ships and craft, and more than 436 support vessels. The naval air arm of 35,000 has 217 combat aircraft and 102 armed helicopters. Naval infantry and coastal defense forces (designed for naval base defense) deploy 9,500 troops with ground combat artillery and missile weapons.

Russia's air force consists of a long-range aviation command, a tactical aviation command, military transport aviation command, training schools and operational combat units. As of 2002, personnel numbered 184,600. The principal weapons systems remain MiG and Su fighters and fighter-attack aircraft and armed helicopters.

There are 409,100 paramilitary forces assigned to specialized security functions for border protection, river patrols, customs duties, installation and plant protection, transportation security, riot duty, and internal security. Border guards number around 140,000 and interior troops number 151,1000.

Although Russia has scaled back the Soviet Union's defense forces, the Russian armed forces still maintain a global presence. In addition to troops remaining in Armenia, Georgia, Moldova, and Tajikistan, Russia maintains military missions or units in the Ukraine, Syria, and Africa. Russian units participated in five peacekeeping operations in the region and supported the UN in ten separate missions. Defense spending in 1998 was an estimated \$55 billion, or 5% of GDP.

## 18 INTERNATIONAL COOPERATION

Russia has taken the former Soviet Union's place in the UN and in its membership in international organizations. Russia, in one form or another, has held a seat in the UN since 24 October 1945. It is a member of the G-8, OSCE, APEC, ECE, IAEA, ICAO, ILO, IMF, IMO, ITU, UNCTAD, UNDP, UNIDO, UPU, WHO, WIPO, WMO, and the World Bank. It has applied for membership in the WTO. It is a founding member of the CIS. The country has assumed the foreign relations ties established by the former Soviet Union.

## 19 ECONOMY

Russia's economy, \$1.2 trillion in purchasing power parity (PPP) terms, is the largest within the former Soviet bloc. It is undergoing a painful transformation from a centrally planned economy to a market-oriented one with limited public ownership. GDP contracted 43% since the collapse of the Soviet Union with industrial production falling 55%. Per capita income in 2001 was only \$1,822 in nominal terms, although \$8,300 PPP terms (CIS est.) By 2000, services comprised the largest sector of the economy, while industrial production accounted for 37% of GDP. The manufacturing centers around Moscow and St. Petersburg are the most important, as they were for the entire former USSR. Russia has rich energy and mineral resources, including large deposits of iron ore, coal, phosphates, and nonferrous metals, as well as one-fifth of the world's gold deposits and substantial oil and gas reserves. There are also vast forest resources. Agricultural production is almost up to self-sufficiency levels and accounted for 7% of GDP in 2000. There is an acute excess demand for goods, especially consumer goods.

Russia's economic situation deteriorated rapidly after the breakup of the Soviet Union, which destroyed major economic links. President Yeltsin's 1992 economic reform program slashed defense spending, eliminated the old centralized distribution system, established private financial institutions, decentralized foreign trade, and began a program of privatizing state owned enterprises. Success was not immediate, however, as the GDP declined by over 12% in 1994 and 4% in 1995. By then, 25% of the population was living in poverty, corruption was rampant, and segments of the economy had gone "underground" to escape backbreaking taxes and bureaucratic regulation. However, government policies kept unemployment at the relatively low rate

of 8%, even though there was no money to pay salaries and pensions. A stabilization program enacted in 1995 tightened the budget, liberalized trade, and lowered inflation through noninflationary financing of the budget deficit. Although the economy declined by 3.6% in 1996, segments of the economy were showing signs of recovery. In 1997, overall GDP registered its first positive growth, albeit only 0.9%. Inflation moderated to 11.3% from 21.8% in 1996, and unemployment fell from 9.3% to 9%. In a major privatization program, the government turned over to the growing private sector thousands of enterprises. However, in 1998, the effects of the Asian financial crisis swept the economy, propelling a massive outflow of foreign investment. In August 1998 it became the Russian financial crisis as the government defaulted on payments due on \$40 billion in ruble bonds and allowed the ruble to depreciate. Real GDP fell 4.9% in 1998 as inflation shot up to 84.5%. Although the economy has not yet attained the levels reached in 1997 (much less the levels prevailing before the collapse of the Soviet Union), it has registered yearly growth and yearly decreases in inflation since 1998. In 1999, real GDP increased 5.4% and in 2000, a strong 8.3% while inflation fell to 36.5% on 1999 and then to 20.2% in 2000. The global slowdown since 2001 has served to decelerate but not reverse economic recovery as GDP growth fell to 4.9% in 2001 and then to 3.5% (est.) in 2002. Inflation fell to 18.6% in 2001, and 16.5% (est.) in 2002, above predictions of 11-13% mainly because of increased fuel costs. Official unemployment, which peaked at 11.8% and 11.7% in 1998 and 1999, has moderated to an estimated 8% in 2002, down from 8.9% in 2001.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 the Russian Federation's gross domestic product (GDP) was estimated at \$1.27 trillion. The per capita GDP was estimated at \$8,800. The annual growth rate of GDP was estimated at 4%. The average inflation rate in 2002 was 16.2%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 7% of GDP, industry 39%, and services 53%. Foreign aid receipts amounted to about \$8 per capita.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$1,618. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 9%. Approximately 28% of household consumption was spent on food, 16% on fuel, 7% on health care, and 15% on education. The richest 10% of the population accounted for approximately 38.7% of household consumption and the poorest 10% approximately 1.7%. It was estimated that in 1999 about 40% of the population had incomes below the poverty line.

## 21 LABOR

In 2001, the labor force was estimated at 71.3 million. As of that year, 61% worked in the service sector, with 28% in industry and the remaining 11% engaged in agriculture. The unemployment rate was officially 8%, with a considerable number of workers underemployed as well.

A legacy from the Soviet era, the Federation of Independent Russian Trade Unions still dominates organized labor and claims to represent 80% of all workers. The mining and air transport industries (along with the state sector) are highly unionized. Overall, about 54% of the workforce is at least nominally organized, but only 4% of union members belong to independent trade organizations. The legal right to strike is hindered by

complex requirements. Court rulings have determined that non-payment of wages, the most prevalent labor complaint, is an individual issue and cannot be addressed by the union. The right to bargain collectively is not regularly protected.

The monthly minimum wage was \$15 in 2001, which was not sufficient to provide a family with a decent standard of living. Most workers earn more than this amount, however it was estimated that 27% of the workforce earned less. Although the labor code provides a maximum regular workweek of 40 hours with a 24-hour rest period, many laborers put in 10 to 12 hour days. The minimum working age (for non-hazardous occupations) is 16, although children as young as 15 may work in apprenticeships. These provisions are effectively enforced through government action and prevailing social norms. The law establishes minimum standards of workplace safety and worker health, but these are not effectively enforced.

## 22 AGRICULTURE

In 1998, Russia had 128 million ha (316.2 million acres) of arable land (8.5% of the world's total), covering 76% of the country's land area. In 2001, the share of agriculture in the GDP was 7%. Agricultural production dropped by an average of 6% annually during 1990-2000. A surge in imports of food products during that period is the direct result of difficulties faced by domestic farmers and processors, and has brought with it a desire for protection from foreign competition in the name of national security. In 2001, Russia's agricultural trade deficit was nearly \$7.6 billion, fourth highest in the world.

The 1999 harvest included (in millions of tons): potatoes, 31.2; wheat, 30.9; sugar beets, 15.2; barley, 10.6; vegetables, 11.1; oats, 4.4; rye, 4.7; sunflower seeds, 4.2; rice, 0.4; corn, 0.3; and soybeans, 0.3. The government is promoting the expansion of small-plot farming; about 150,000 new farms have begun operating since 1991, primarily in the south.

Agricultural policy has changed several times since market reforms began. Low interest loans were initially offered to the old state farms, but the government's budget soon could not afford all the demands made by farmers. The low interest loans were replaced by in-kind loans to suppliers, which were then modified to in-kind loans from the federal government to local governments. The general agricultural policy trend is now an ongoing devolution of power from the federal government to local governments.

## 23 ANIMAL HUSBANDRY

Some 87.3 million hectares (215.7 million acres) are pastureland, representing just over 5% of the total area. In 2001, the livestock population included: cattle, 27,294,000; sheep, 12,561,000; and pigs, 15,707,000. Russia also had 1.6 million horses, 335.6 million chickens, and 2.5 million turkeys in 2001.

The 2001 meat production amounts included (in 1,000 tons): beef, 1,872; pork, 1,498; mutton, 113; and poultry, 884. In 1999, Russia's livestock production was only 50% of what it had been in 1990. Pork production has suffered a similar decline and has become the most expensive meat sold in Russia. The Russian hog sector further contracted in 1999 due to the 1998 ruble devaluation, weak demand, high credit costs, and inadequate grain supplies. Milk production in 2001 was estimated at 32.6 million tons (down from 55.7 million tons in 1991), and egg production amounted to 19.6 billion in 2001 (down from 47.4 billion in 1990). Infrastructural and distributional problems have only exacerbated the declining production. Most Russian dairy farms are reported to be unprofitable due to low quality dairy cows, limited supplies of quality feed, and lack of support services. Continued decline in livestock production, especially poultry, as well as the rapid growth of imports have been a source of trade friction and political debate calling for restrictions on

food imports into Russia. In 2001, Russia imported nearly \$1.7 billion in meat and meat products.

## 24 FISHING

Russia's fish production ranks seventh in the world, following China, Peru, Japan, Chile, the United States, and India. In 2000, 94% of the catch was marine, while 6% came from inland waters. The total catch in 2001 was 4,890,000 tons. Leading commodities by volume included frozen fish, 3,500,000 tons; canned, 205,000 tons; and cured, 480,000 tons. The main species of the commercial catch in 2001 included (in thousands of tons): cod, 1,729; herring, 403; salmon, 224; and plaice, 114. More than half of Russian fish product exports consist of frozen products. Exports of frozen fish in 2001 were valued at \$288.4 million; fillets, \$32.3 million; and roe, \$31.1 million.

Overfishing and pollution of territorial waters have forced fishermen farther away from traditional fishing waters. For example, pollutants like mercury have partly caused the decline of the sturgeon and pike perch catches, which fell by 50% and 90%, respectively, from 1974 to 1987 in the Caspian Sea. Similar ecological problems also have affected fishing in the Azov Sea. Russia's enormous fishing fleet has many old vessels, and fuel shortages are common. Since 1991, more than 70 vessels have been leased from Spanish, Norwegian, and German shipbuilding yards. In 1995 alone, 205 Russian fishing vessels were mothballed or sold for scrap.

Despite problems with pollution, the Russian catch expanded during the 1980s (the marine catch by 24%, the freshwater catch by 26%) due to intensified fishing in dam reservoirs, consumption substitution toward nontraditional fish stocks, and acceptance of higher levels of contaminants. Since 1990, the production of fish and fish products has declined without interruption. Direct subsidies from the federal government ceased in 1994. As a result, the proportion of unprocessed fish products has steadily risen since 1990. Badly worn ships and equipment continue to limit production. Russia is eligible to catch up to five million tons of fish outside its territorial waters, but typically only reaches one million tons.

## 25 FORESTRY

Russia's forested areas are vast. In 2000 an estimated 851.4 million hectares (2,104 million acres) were classified as forested—an area larger than the total land area of Australia. Only half of this area is commercially accessible and only 7–10% is currently exploited. Russia contains 25% of the world's forested area; 20% of the world's forests are in Siberia. The forest stock in Russia is 80% coniferous, consisting mainly of spruce, fir, larch, and pine in subarctic areas; these stands account for 52% of the world's coniferous areas. Deciduous trees (birch, oak, beech, ash, maple, elm) grow further south and account for 13% of the world's deciduous forests.

In 2001, the timber cut yielded 77.7 million cu m (2.74 billion cu ft) of roundwood. Production that year included (in cubic meters): sawn timber, 19,000,000; plywood, 1,590,000; and particleboard, 2,482,000. In 2001, Russian exports of forest products were valued at over \$2.5 billion. Japan accounted for 30% of the market in 2001.

In 1992, a year after the dissolution of the USSR, the forest products industry underwent massive changes. Hundreds of inexperienced new businessmen were attracted to the business of buying logs from newly-unregulated *leskhoz*es (forest villages legally entitled to harvest and manage forests). Widespread privatization in the forest products industry began in 1993. *Rocleskhoz*, the federal forest service, is responsible for overseeing management of forests. The forestry industry is a multi-layered bureaucracy where wood processing companies must pay about 40 different taxes, which has prompted some to act outside the official system. During the 1990s, about 50% of

all forestry firms went out of business, and about 60% of the firms remaining are believed to be on the verge of bankruptcy. The failing firms are often pressured to cut trees and sell logs for quick cash to pay off debts so they will be allowed to stay in business. Poaching, unsustainable logging, and fire damage are growing problems. Much of the forestry equipment is too old or expensive to operate, with the result that output per worker is at 1960s levels. Though the government is trying to encourage exports of higher value products, lack of investment has hindered plans to decrease the 40% export share of softwood and hardwood logs.

## 26 MINING

With bountiful and diverse minerals, Russia, the world's largest country in land area, occupying 75% of the former Soviet Union, had a significant percentage of the world's mineral resources and produced 14% of the world's total mineral extraction. Mining was the country's leading industry in 2002, and Russia was the largest producer of palladium and nickel (20% of world output), and ranked second in the production of aluminum and platinum-group metals (PGMs), third in potash, sixth in gold, and seventh in mine copper. Russia also produced a large percentage of the CIS's bauxite, coal, cobalt, diamond, lead, mica, natural gas, oil, tin, zinc, and many other metals, industrial minerals, and mineral fuels. Enterprises considered part of the mineral and raw-material complex contributed 70% of the budget revenues derived from exports; petroleum, petroleum products, and natural gas were Russia's leading export commodities in 2002; metals and chemicals also were leading export commodities.

More than half of Russia's mineral resources were east of the Urals. The most significant regions for mining were Siberia, particularly East Siberia, for cobalt, columbium (niobium), copper (70% of Russia's reserves), gold, iron ore, lead (76% of the country's reserves), molybdenum, nickel (becoming depleted), PGMs, tin, tungsten, zinc, asbestos, diamond, fluor spar, mica, and talc; the Kola Peninsula, for cobalt, columbium, copper, nickel, rare-earth metals, phosphate (the majority, in the form of apatite), and tantalum; North Caucasus (copper, lead, molybdenum, tungsten, and zinc); the Russian Far East (gold, lead, silver, tin, tungsten, and zinc); the Urals, with bauxite, beryllium, cobalt, copper, iron ore, lead, magnesite, nickel, titanium, vanadium, zinc, asbestos, bismuth, potash (96% of the country's reserves), soda ash, talc, and vermiculite; and the region near the Arctic Circle (cobalt, gold, mercury, nickel, tin, phosphate, and uranium). The Kaliningrad region contained 95% of the world's amber deposits, and Russia possessed 10% of the world's copper reserves. Metallurgical enterprises in Kola, North Caucasus, and the Urals were operating on rapidly depleting resource bases, and were experiencing raw material shortages.

A large percentage of Russian reserves was in remote northern and eastern regions that lacked transport, were distant from major population and industrial centers, and experienced severe climates, and enterprises built there in the Soviet era had curtailed operations sharply. Efforts to develop new large deposits of nonferrous metals near the eastern Baikal-Amur railroad were not progressing. One researcher proposed the creation of small mining enterprises to develop the rich small deposits of eastern Russia. Reserves of iron ore were sufficient to last 15–20 years; those of nonferrous metals, 10–30 years. Reserves of major minerals included potash, 1.8 billion tons; magnesite, 585 million tons; bauxite, 250 million tons; phosphate rock, 240 million tons; asbestos, 100 million tons; fluor spar, 60 million tons; manganese, 15 million tons; nickel, 6.3 million tons; vanadium, 5 million tons; zinc, 4 million tons; antimony, 3 million tons; and lead, 3 million tons.

Output of iron ore was 86.63 million tons in 2000, 81.31 million tons in 1999, and 72.34 million tons in 1998; increased demand from the domestic metallurgical sector spurred the rise.

Iron ore output was at 77% of the 1990 level (better than other metals), and product quality has been maintained. The largest producer was Kursk Magnetic Anomaly, at Zheleznogorsk and Gubkin, with a 50 million ton per year capacity.

Output of copper was 570,000 tons in 2000, 530,000 in 1999, and 500,000 in 1998. The Noril'sk complex, in East Siberia, produced 70% of the country's copper, and planned to increase output of cuprous ore from its Oktyabr'skiy underground mine, from 100,000 tons per year to 1.6 million tons, because the cuprous ores were 40% higher in copper content than the nickel-rich ores; the Oktyabr'skiy mine supplied 70% of Noril'sk's copper output, and was planning to decrease production of the nickel-rich ores.

PGM production included 94,000 tons of palladium (85,000 in 1999, and 80,000 in 1998), and 30,000 tons of platinum (25,000 in 1998). Sixty percent of PGM output came from the Oktyabr'skiy mine, Noril'sk, and a plan to expand output at the mine of cuprous ores by a factor of sixteen was projected to yield more PGMs, as would two new nickel-rich mines, the Glubokiy and the Skalisty, that had a high PGM content; the Skalisty planned to reach a 2 million ton per year capacity by 2002.

The output of other metals in 2000 was: bauxite, 4.2 million tons (3.75 million tons in 1999, and 3.3 million tons in 1996); nickel, 270,000 tons (230,000 in 1996—40% less than the peak levels of the late 1980s; 96% came from the Kola Peninsula and East Siberia, and 197,300 tons were exported to non-CIS countries); zinc, 136,000 tons (86.7%, from the Urals); lead, 13,300 tons (23,000 in 1996; 62.8% came from the Russian Far East, and the Dalpolymetal mining and beneficiation complex, in Maritime territory, had a 20,000 ton per year capacity); magnesite, 1 million tons (from the Satka deposit, in Chelyabinskaya Oblast', which had a 3.8 million tons per year capacity); tin, 5,000 tons (7,500 in 1997); titanium sponge, from the Perm region in the Urals, 30,000 tons (24,000 in 1999); molybdenum, 2,400 tons (2,000 in 1998); and cobalt, 3,600 tons. Gold mine output—from Yakut-Sakha, Buryat, Magadan, Krasnoyarsk, Maritime, and Tuva—was 143,000 kg (metal content), up from 125,870 in 1999. Russia also produced the metal minerals alumina, nepheline concentrate, antimony, white arsenic, bismuth, chromium, manganese, mercury, silver, tungsten, and baddeleyite zirconium. Russia, which had the capacity to mine vanadium, stopped mining beryllium in the mid-1990s, and continued producing cobbled beryl.

Industrial mineral production in 2000 included phosphate rock (apatite concentrate and sedimentary rock), 4.45 million tons (4.04 million tons in 1998, and 3.2 million tons in 1996; 90%, from the Kola Peninsula, where total capacity was 20.7 million tons per year); marketable potash, 3.7 million tons (all from the Verkhne Kamsk deposit, in the Urals, with a capacity of 6.3 million tons per year); mica, 100,000 tons; fluorspar concentrate, 187,600 tons (153,800 in 1999, and 6,200 in 1997); and gem and industrial diamonds, 11.6 million carats each (10.5 million each in 1996; 99.8% was mined from kimberlite deposits near Mirnyy, in the Sakha [Yakutiya] Republic, at a value of \$1.623 billion). Russia also produced the industrial minerals amber, asbestos, barite, boron, hydraulic cement, kaolin clay, feldspar, graphite, gypsum, iodine, lime, lithium minerals, nitrogen, salt, sodium compounds, sulfur (including native and pyrites), sulfuric acid, talc, and vermiculite. Russia's only producer of amber, Kaliningrad Amber Works, was the world's largest producer, yielding 441.8 tons in 2000, 364.5 in 1999, and 512.2 in 1998.

Despite decreased metal output compared with the Soviet period (e.g., 20% as much tin), Russia was producing more aluminum, lead, and zinc in 2000 than during the Soviet era. Ten percent of the technology employed in the nonferrous mining and metallurgy sector was rated as world class, labor productivity was one-third below that of advanced industrialized countries, and energy expenditures were 20%–30% higher. Another

problem was that the resource base for metallurgical enterprises was not competitive in terms of quality, with the exception of antimony, copper, nickel, and molybdenum. More than one-half of industrial mineral output was exported, depriving the domestic sector of needed supplies, especially barite, bentonite, crystalline graphite, and kaolin. Russia has not been successful in attracting foreign investment for developing its mineral deposits, because of high and unpredictable taxes, an unreliable legal system, insecure licensing, inequity in the treatment of domestic and foreign partners, a weak banking system, and the inability to directly export commodities.

## 27 ENERGY AND POWER

Russia possesses enormous reserves of oil, natural gas, and coal, which provide a significant source of foreign revenue as well as a large degree of self-sufficiency in energy resources. In 1996, petroleum exports accounted for an estimated \$15.3 billion, or 24% of total exports.

The Tartarstan and Chechen-Ingushetia republics and the Tyumen oblast (west Siberia) are the main regions where oil is produced. Production has fallen from 569.5 million tons in 1987 (about 11 million barrels per day) to 7.3 million barrels per day in 2001. Still, Russia was the world's second-largest oil exporter as of 2002. About half of Russia's 1,950 known oil and gas fields currently are producing. About 90 of these fields account for 75% of total output. The declining production since 1988 has resulted from several factors, including natural reservoir depletion, deteriorating equipment, insufficient investment, stalled implementation of tax reforms, and poor technical management. Refineries in Russia are generally antiquated and inefficient, relying on western Siberian crude oil delivered via pipeline. However, the privatization of most of Russia's oil industry in the mid-1990s helped production start to increase again. Pipelines are also used to export up to one million barrels per day of oil to Eastern Europe; tankers are used through the major oil ports of St. Petersburg and others. At the start of 2002, Russia had 48.6 billion barrels of proven oil reserves. In 2002, oil exports were estimated at 5.1 million barrels per day.

As of 2002, Russia had the world's largest reserves of natural gas, and gas accounted for more than 54% of primary energy consumption. Proven reserves of natural gas in Russia at the start of 2002 totaled 48.1 trillion cu m, or 34.5% of the world's total reserves. Gazprom, the huge state-owned gas company, controlled over 90% of production. Natural gas production is also centered in western Siberia, namely at the Urengoi Field. Natural gas exports now are limited to the parts of Europe that are served by the west Siberian and Ural pipelines. In 2001, Russia produced 580 billion cu m, down from 599.8 billion cu m in 1991. Future production will depend on exploiting inaccessible fields, which will require a significant amount of investment capital. Russia's proven coal reserves of 173 billion tons at the beginning of 2002 were the world's second-largest. Coal production in 2000 was estimated at 281 million tons, which satisfied domestic consumption requirements.

Several western petroleum companies have taken part in Russia's oil and natural gas development through joint venture projects. Russia is one of the most expensive operating environments in the world, with high capital expenditures, operating costs, pipeline tariffs, and royalties. As a result, many foreign joint venture partners are only producing small amounts because of reduced incentives. In 1996, many of the larger companies scaled down their investments. Smaller foreign oil companies have fared best in the oil sector because they are able to bypass the bureaucratic approval process required for large projects. As of 2000, it seemed unlikely that the investment climate would improve significantly; president Vladimir Putin signed legislation to raise oil export duties, and toughened the tax laws. However, Russia's oil companies have used some of the

profits reaped from the rise in world oil prices since 1999 to expand exploration and drilling efforts.

Power generation has fallen steadily since the breakup of the Soviet Union. In 2000 it totaled 835.4 billion kWh, of which 66.1% was from fossil fuels, 18.9% from hydropower, 14.7% from nuclear power, and less than 1% from other sources. Consumption of electricity in 2000 was 767.1 billion kWh. Total installed capacity in 2001 was 204.2 million kW. Thermal generation accounted for 68% of electrical capacity. As of 2002 Russia had more than 440 thermal and hydroelectric generating stations and thirty nuclear reactors in ten locations. The most recent addition was a 1,000 MW reactor that began operating at the Rostov facility in 2001.

## 28 INDUSTRY

Major manufacturing industries include crude steel, cars and trucks, aircraft, machine equipment, chemicals (including fertilizers), plastics, cement and other building materials, medical and scientific instruments, textiles, handicrafts, paper, television sets, appliances, and foodstuffs.

Steel production remains a key industry. Once the world leader in the production of steel, that Russian industry fell on hard times in the 1980s as Soviet-made products could not keep up with the quality or output of competitors. Nonetheless, plants continue to operate although less than half use updated equipment.

Aluminum and nickel production continue, particularly in mineral rich Siberia. The largest companies are the Noril'sk Nickel Joint-Stock Company, Bratsk Aluminum, Krasnoyarsk Aluminum, and Sayan Aluminum. European Russia and the Ural region continue to serve as the center for the production of textiles and machine industry. Chemical production is scattered throughout the country, while the center of the oil and gas industry remains the region of the Caucasus Mountains and Caspian Sea. The oil industry was dominated in 2002 by 11 large companies which accounted for around 90% of production and close to 80% of refining. Russia had 42 oil refineries in 2002, with a total capacity of 5,436,000 barrels per day.

Industrial expansion is mainly in consumer goods and food processing, often embraced by enterprises converting from military production, which dominated industry output in the former Soviet Union.

Russia's industrial base is outmoded and must be restructured or replaced in order for the country to maintain strong economic growth. Nonetheless, Russia emerged from its 1998 economic crisis with an industrial growth rate of 5.2% in 2001. That year, industry accounted for 39% of GDP and employed 28% of the work force. Oil, fuel, and gas made up 54% of Russia's exports in 2000, followed by iron and steel, aluminum, precious metals and stones, and machinery and equipment. Other industrial areas of growth in the early 2000s include construction, automotive equipment, aircraft, and food processing. Russia produced 1,249,582 automobiles in 2001, a 4% increase over 2000. In 2000, it produced 44,123 heavy trucks, a 22% increase over 1999.

## 29 SCIENCE AND TECHNOLOGY

The Russian Academy of Sciences, founded in 1725, is the chief coordinating body for scientific research in Russia through its science councils and commissions. It has sections of physical, technical, and mathematical sciences; chemical, technological, and biological sciences, and earth sciences, and controls a network of nearly 300 research institutes. The Russian Academy of Agricultural Sciences, founded in 1929, has departments of plant breeding and genetics; arable farming and the use of agricultural chemicals; feed and fodder crops production; plant protection; livestock production; veterinary science; mechanization, electrification, and automation in farming; forestry; the economics and management of agricultural

production; land reform and the organization of land use; land reclamation and water resources; and the storage and processing of agricultural products. It controls a network of nearly 100 research institutes. It supervises a number of research institutes, experimental and breeding stations, dendraria and arboreta. The Russian Academy of Medical Sciences, founded in 1944, has departments of preventive medicine, clinical medicine, and medical and biological sciences, and controls a network of nearly 100 research institutes.

The Russian Federation in 1987–97 had 3,587 scientists and engineers and 600 technicians engaged in research and development. In the same period, research and development expenditures totaled 0.9% of GNP. Russia has nearly 250 universities and institutes offering courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 50% of university enrollment. In 1998, high-tech exports were valued at \$2.4 billion and accounted for 12% of manufactured exports.

## 30 DOMESTIC TRADE

A central marketplace is a common feature of urban areas in Russia. Outside of Moscow and St. Petersburg, small open markets and kiosks are the primary retail establishments. Nationwide distribution channels are still largely undefined.

Many consumer goods, which were often traded via the black market during the Soviet era, are now openly available. However, inflation and slow economic recovery severely constrain domestic purchasing power. Since the underground economy was so well-developed during the Soviet period, distribution and trade through informal channels is still common. The appearance and rapid development of organized crime in post-Soviet Russia may also be seen as a result of Russia's affinity for informal domestic economic activity; local businesses are often forced to pay protection money to organized crime. Commercial advertisement, virtually unknown during the Soviet era, is now commonly used.

As of 2001, a value-added tax of 20% (VAT) applies to most goods and services. The VAT is reduced to 10% for certain foods and children's clothing. Pharmaceuticals and certain financial services are exempt. Additional sales taxes are levied locally. Credit cards are being accepted at major hotels and restaurants in Moscow and St. Petersburg, but many other retail establishments still operate on a cash-only basis.

## 31 FOREIGN TRADE

Principal exports have traditionally been oil (accounting for about 33% of earnings), gas, minerals, military equipment and weapons, gold, shipping, and transport services. Principal imports include machinery and equipment, consumer goods, medicines, meat, grain, sugar, and semi-finished metal products.

In 2000 the Russian Federation's imports were distributed among the following categories:

Consumer goods	7.8%
Food	12.8%
Fuels	3.3%
Industrial supplies	22.1%
Machinery	14.9%
Transportation	3.8%
Other	35.3%

Imports and exports to principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	9,231	3,896	5,335
Italy	7,255	1,211	6,044
Belarus	5,535	3,764	1,771
China (inc. Hong Kong)	5,235	949	4,286
Ukraine	5,025	3,650	1,375
United Kingdom	4,669	861	3,808
United States	4,648	2,703	1,945
Netherlands	4,341	739	3,602
Switzerland	3,976	280	3,696
Kazakhstan	2,247	2,200	47

### 32 BALANCE OF PAYMENTS

Foreign trade was largely deregulated in early 1992, and the trade balance contracted throughout the year; exports declined by 35% to \$15.4 billion, while imports fell by 24% to \$14.9 billion during the first half of 1992 compared with the same period of 1991. The current account deficit was estimated at \$4 billion in 1992, due to the significant decrease in imports. As of the beginning of 1993, there was a dire shortage of hard currency reserves, which severely limited importation possibilities of consumer and capital goods. Since 1993, however, Russia has run a surplus on the current account.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of the Russian Federation's exports was \$104.6 billion while imports totaled \$60.7 billion resulting in a trade surplus of \$43.9 billion.

The International Monetary Fund (IMF) reports that in 2001 the Russian Federation had exports of goods totaling \$101.6 billion and imports totaling \$53.8 billion. The services credit totaled \$10.9 billion and debit \$19.4 billion. The following table summarizes the Russian Federation's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>34,621</b>
Balance on goods	47,839
Balance on services	-8,501
Balance on income	-3,959
Current transfers	-759
<b>Capital Account</b>	<b>-9,378</b>
<b>Financial Account</b>	<b>-4,738</b>
Direct investment abroad	-2,533
Direct investment in Russia	2,469
Portfolio investment assets	-77
Portfolio investment liabilities	-730
Other investment assets	-577
Other investment liabilities	-3,444
<b>Net Errors and Omissions</b>	<b>-9,239</b>
<b>Reserves and Related Items</b>	<b>-11,266</b>

### 33 BANKING AND SECURITIES

The Central Bank of the Russian Federation was created in January 1992 from the old Soviet banking system headed by Gosbank (The Soviet State Bank). The bank heads a two-tier banking system, and implements a monetary policy and regulates the commercial banking sector by setting the reserve requirements and the discount rate. The currency unit of Russia is the ruble, a currency that is in the process of becoming fully convertible with world currency. Russia, along with a few other countries of the former Soviet Union, decided to keep the ruble as its currency. The other important state bank is the Rosevneshtorgbank (Bank for Foreign Trade of the Russian Federation).

Around 2,000 commercial banks operate in Russia, a third of which are former specialized state banks. The rest are new institutions. Commercial banks include the Commercial Bank Industriaserbis, the Commercial Credit Bank, the Commercial

Conservation Bank, the Commercial Innovation Bank, the International Moscow Bank, St. Petersburg's Investment Bank, and the Construction Bank. The International Bank is a bank whose shares are owned by western banks, such as Citibank (US) and the Barclays Groups (UK), interested in doing business in the country.

Sberbank held around 86% of the population's savings in 1994. Having around 2,000 branches, it is by far the largest banking institution in the country. Sberbank became a joint-stock company in 1991, with the Central Bank taking a 20% shareholding. In addition to Sberbank (the Savings Bank), there were four other specialized banks: the Foreign Trade Bank (Vneshtorgbank), which is now more concerned with retail and corporate banking; the Bank for Construction and Industry (Promstroibank); the Agriculture Bank (Agroprombank); and the Social Sector Bank (Zhilotsbank). Formerly these were joint-stock banks but they relied on cheap credit from Gosbank.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$40.9 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$72.8 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 10.1%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 25%.

Russia had a small stock market in 1992. The market is considered an emerging market by western investors with the potential for significant growth in coming years. Although the first stock market opened in Moscow in 1991, over 100 were in operation by 1996. The range, as well as the volume, of securities traded has been rapidly expanding. Inadequate regulation and custody registration systems have been the main bottlenecks in development. A Commission for Securities and Stock Market was established in late 1994. The second half of 1996 witnessed a huge rally in the value of Russian equity as it became clear that economic reforms would continue following the reelection of Boris Yeltsin as president.

Nevertheless, Russia's financial woes continued. In August 1998 the government defaulted on its debt. This action, in turn, led to the collapse of Russia's financial markets as the government abandoned support for the ruble and ceased bond payments. As a result, many banks became insolvent; only Central Bank intervention allowed many depositors to rescue a portion of their funds. Since Sberbank was originally a savings bank for the Soviet people, after the financial crisis of 1998 it received individual accounts from banks liquidated by the government. As a result, it has an unmatched network of 50 branches and over 2,000 outlets handling millions of accounts, both private and commercial. Also following the 1998 crisis, a group of new banks actually grew larger because of their avoidance of speculation in the short term loans on which the government had to default, and their dedication to professional services. These banks, which have prospered despite the weak economy or perhaps because of it, include the Bank of Moscow, Alfa-Bank, Rosbank, Mezhprombank, Mosbusinessbank, MDM Bank, Sobinbank, National Reserve Bank, and Gazprom Bank.

The subsequent adoption of a tight monetary policy prevented the onset of hyperinflation and has contributed to the ongoing recovery. In fact, 2001 saw a considerable amount of economic firming. Market capitalization in combined Russian stock markets was, at \$76 billion, nearly double the 2000 level, and the RSF Russia 100 Index, at 8602.7, was up 91% from the previous year.

### 34 INSURANCE

In 1993, 1,524 Russian companies were licensed to sell insurance and another 750 companies had applied for licenses. However,

fewer than 2% of the operating firms had assets over R100 million (US\$80,000), and premium volume for the first nine months of 1993 amounted to only 1.3% of the GDP (as compared with volume of 2.9% for the former Soviet Union in 1990).

Property insurance is the largest segment of the market with 880 companies. There are 775 cargo insurance firms, and 600 that sell life insurance. The various companies are gradually consolidating into groups.

Regulation of the industry is low. For example, in 1994, to open a business, the minimum capital requirement was two million rubles for an insurance company and 15 million rubles for reinsurance. Rosgosstrakh held a virtual monopoly on the domestic insurance market with 90% of policies, while Ingosstrakh held about 50% of the market in export and import insurance. One of the largest newcomers is Ask, a commercial company. Foreign ownership in insurance companies in 2002 was limited to 49% in order to protect private insurers. The industry is regulated by the Russian Insurance Inspectorate. Compulsory insurance includes third-party automobile liability, medical insurance, pension, social insurance, and fire and accident insurance. Starting in January of 1996, companies are able to deduct their insurance premiums as a business expense for tax purposes.

### 35 PUBLIC FINANCE

Since the breakup of the COMECON and the Soviet Union, trade disruptions and friction between Russia and the governments of the former Soviet republics had led to an enormous expansion of the fiscal deficit. The deficit was financed largely through sales of domestic government securities and borrowing from international financial institutions. Consequently, the government had sharply restrained spending in an attempt to keep the federal budget deficit to under 6% of GDP. Government spending remains about 38% of GDP, but the government has managed to achieve a small surplus. The external debt was estimated to rise about \$19 billion in 2003 as a result of higher Ministry of Finance and Eurobond payments.

The US Central Intelligence Agency (CIA) estimates that in 2001 the Russian Federation's central government took in revenues of approximately \$45 billion and had expenditures of \$43 billion. Overall, the government registered a surplus of approximately \$2 billion. External debt totaled \$149 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	45,000
Tax revenue	83.3%	37,491
Non-tax revenue	16.2%	7,304
Capital revenue	0.3%	155
Grants	0.1%	51
EXPENDITURES	95.5%	41,048
General public services	8.2%	3,524
Defense	12.6%	5,401
Public order and safety	5.9%	2,537
Education	2.2%	945
Health	0.9%	394
Social security	33.7%	14,473
Housing and community amenities	0.3%	135
Recreation, cultural, and religious affairs	0.7%	285
Economic affairs and services	1.4%	600
Other expenditures	19.2%	8,242
Interest payments	10.5%	4,511

### 36 TAXATION

Russia's tax system has historically been confusing, inefficient, unwieldy, and overbearing. Businesses and individuals routinely fail to pay their taxes on time, if at all. The government's need for money to pay pensions and salaries fueled a proliferation of taxes, including a tax on people crossing Russia's borders, additional levies on freight, new transit fees, and a tax on yields from government securities. In 1996, 26 tax collectors were killed, six were kidnapped, and 41 had their homes burned down. In the first half of 1997, the government only collected 57% of its targeted tax revenues.

Since 1999, the tax system has been the focus of a major reform effort aimed at reducing tax loads, improving collection rates, and bringing the system in line with those of advanced, market economies. The new Tax Code cut the number of official taxes from over 200 to about 40, and sought to end many loopholes. Part One of the new Tax Code, effective 1 January 1999, set out the administrative framework for the new system. There are three levels of taxation, federal, regional, and local. The principal taxes collected at the federal level are the profit tax on organizations (with payments divided among all three levels of government), a capital gains tax, personal income tax (13% flat tax), the Unified Social Tax (replacing payroll contributions to four separate social benefit funds), a value-added tax-VAT-(with the standard rate reduced from 23% to 20% in 1999), excise taxes, a securities tax (0.8% on nominal value with exemptions for initial issues), customs duties and customs fees, and federal license fees. At the regional level the principal taxes are an assets tax (2%), a real estate tax, a transport tax (10%), sales taxes (maximum 5% in 2003), a tax on gambling, and regional license fees. Two turnover taxes at the state level, a social infrastructure maintenance tax (Housing Fund Tax) of 1.5% and a road users' tax of 2.5% (reduced to 1% in 2002), considered to be among the most onerous under the previous tax system, have been abolished: the Housing Fund Tax in 2001, and the roads tax in 2003. At the local level there are land taxes, individual property taxes (maximum 2%), taxes on advertising expenses (beyond allowable limits as a proportion of sales), inheritance and gift taxes, and local license fees.

In 2003, the corporate income tax was 24%, with payments split 6% to the federal budget, 16% to the state budgets, and 2% to local budgets. States are allowed to reduce their corporate rate to as low as 12%, so the total minimum rate is 20%. In 2002, the distribution was 7.5% to the federal government, 14.5% to the state governments (with an option to reduce to as low as 10%) and 2% to local governments. Foreign companies pay withholding of 20%, and dividends paid to non-residents are charged a 15% withholding rate (down from 18%).

The most striking provision in Russia's 1999 tax reforms is the replacement of its progressive income tax schedule (set out in the tax law of December 1991 with rates from 12% to 30%) with a flat tax of 13% applied to almost all income categories. The rationale is that the lower, simpler tax will generate more revenue by reducing Russia's pervasive tax-evasion. Exceptions to the 13% rate include a 30% rate on dividend income and on the income of non-residents from Russian sources, and a 35% rate on gambling income, lottery prizes, deemed income from low-interest or interest-free loans, some insurance payments, and excessive bank interest. The Unified Social Tax is a regressive schedule of payroll taxes ranging from 35.6% on income up to R100,000 (about \$3,300) to 2% (5% in during the transition period in 2001) on income above R600,000 (about \$19,800). All voluntary insurance payments are tax deductible.

Russia's VAT is its main indirect tax. Under the current tax reforms, the standard VAT rate is scheduled to be reduced from 20% to 18% as of January 2004, and to 16% as of January 2006. A reduced rate of 10% applies to educational books,

newspapers and periodicals (until the end of 2005), other printed media (until the beginning of 2005), and pharmaceuticals and medical equipment. Exemptions from VAT for pharmaceuticals and license fees have been narrowed or removed. Exports are exempt from VAT, and as of 1 July 2001, exports to CIS countries receive the same VAT-exempt treatment. There are also excise taxes on items such as gasoline and other oil products, natural gas, alcohol, tobacco, and cars, motorcycles, and jewelry. Regional sales taxes of 5% are likely to be abolished by 2004.

### 37 CUSTOMS AND DUTIES

In 1992, Russia eliminated many of the import restrictions imposed by the former Soviet Union. At the beginning of 2001, Russia put into effect a new and simpler tariff structure, consisting of four basic rates: 5%, 10%, 15%, and 20%. This effectively lowered the tariff ceiling from 30% to 20%. There is also a 20% value-added tax (VAT) on most imported goods, except for food products, which carry a VAT of only 10%. Excise taxes on luxury goods, alcohol, tobacco, and autos range from 20% to 570%. In total, these duties make imported goods essentially noncompetitive in the troubled Russian economy.

### 38 FOREIGN INVESTMENT

In September 1991, a foreign investment law promoting the transfer of capital, technology, and know-how went into effect. Nonresidents may acquire partial shareholdings or form wholly owned subsidiaries in Russia. Foreign firms may obtain licenses to exploit natural resources. Foreign investors can be exempted from import duties and export taxes, and there is limited relief from profits tax, varying by sector and region. However, foreign investors remain concerned with the overall business climate in Russia. Vague business laws, an incoherent tax system, crime and corruption in commercial transactions, and a weak commitment to reform continue to erode investor confidence.

In 1997, the annual inflow of foreign direct investment (FDI) to Russia peaked at \$4.87 billion, but then fell to \$2.76 billion in 1998 in the context of the Russian financial crisis. FDI recovered to \$3.3 billion in 1999, and for the three years 2000, 2001, and 2002 averaged about \$2.6 billion a year. Cumulative FDI in Russia from 1991 to April 2003 was \$19.6 billion, up from a cumulative \$17.2 billion of FDI as of April 2002. Russia's share of world FDI flows has persistently been only about 30% of its share of world GDP, an indication of its lack of success in attracting foreign investment.

### 39 ECONOMIC DEVELOPMENT

In 1991, Russia's parliament enacted legislation aimed at fully privatizing the commercial and service sector by 1994 and placing about half the medium and large companies in private hands by 1995. By the end of 1992, about 6,000 firms had applied to become joint-stock companies, and 1,560 had completed the process; almost one-third of Russia's approximately 250,000 small businesses had been privatized. Housing privatization began late in 1992, and over 2.6 million apartments—about 8% of the total—had been privatized by the end of 1993. In 1996, the government claimed that the nonstate sector produced approximately 70% of gross domestic product (GDP), up from 62% in 1995. Russia's Communist-dominated parliament, however, was quick to criticize the government's privatization efforts which they thought were responsible for the economic decline. In March 1997, over two million people took part in a national strike protesting the economic hardships of privatization and over 100,000 attended rallies in Moscow and St. Petersburg. The government, however, was committed to privatization and largely ignored the parliament and the protests.

During the financial crisis of 1998, Russia became the first modern country to default on its debt. The subsequent collapse of the ruble and investor flight left analysts concerned that Russia

would face famine and even governmental collapse. Instead, a period of fiscal restraint restored growth to the Russian economy although it remains vulnerable to sudden fluctuations in the world market. Russia in the early 2000s remained current on its foreign debt; service of the foreign debt amounted to around \$14 billion in 2002.

Russia's GDP increased by 4.3% in 2002 over 2001. Lowered inflation and high oil prices fueled that growth. Unemployment and underemployment remain problems, however. In 1998 the government passed an improved bankruptcy code, and in 2001, the Duma passed a deregulation package, to improve the business and investment sector. A new corporate tax code went into effect in 2002. Cumulative foreign investment increased by 20% in 2002, but was mostly due to increases in loans and trade credits. The banking system is poorly developed, which inhibits economic development. In 2002, the US Department of Commerce designated Russia a "market economy," and the country has been invited by the G-7 nations to take part in negotiations, causing the group to be named the G-8.

### 40 SOCIAL DEVELOPMENT

A social insurance system provides pensions for old-age, survivorship, and disability. The program is funded by employer payrolls, and self-employed persons and independent farmers contribute a fixed amount monthly. The government provides subsidies when needed. A government-funded system provides coverage for state employees, military personnel, and other specified groups. All citizens and refugees are entitled to medical care; employed persons receive cash benefits for sickness. Unemployment programs are funded by the government. Maternity benefits cover 100% of earnings from between 10 and 12 weeks before the expected date of childbirth and 10 to 16 weeks after childbirth. A universal system of family allowances provides a birth grant, a funeral grant, and a monthly benefit for each child under the age of 16.

The constitution prohibits discrimination based on race, sex, religion, language, social status or other circumstances. Despite these constitutional provisions, employment discrimination against women and minorities occurs. On average women earn significantly less than men and cluster in the lower-paid jobs and professions. The high cost of maternity care benefits leads some employers to hire men rather than women. Women suffer disproportionately in situations of worker layoffs. There is no law against sexual harassment and abuses in the workplace are common. Spousal abuse is a widespread problem and is treated as a domestic matter rather than a criminal offense. Sexual violence and other crimes against women are underreported and the government provides no support services to victims.

Discrimination against people from Central Asia and the Caucasus is on the increase according to international human rights organizations. These minorities were subject to harassment, searches, and arrest by police, and were sometimes denied local authority permission to reside in Moscow. Anti-Semitic rhetoric is increasing and several instances of intimidation and violence have been reported. Muslims continue to face discrimination.

Serious violations of human rights were reported, many of which occurred during the conflict in Chechnya. Both Russian military and Chechen forces committed abuses, including the killing of thousands of civilian residents and incidents of rape following the 1999 offensive at Alkhan-Yurt. An estimated 10,000–20,000 persons die in Russian prisons every year due to mistreatment, unhealthy living conditions, and lack of medical care.

### 41 HEALTH

As of the mid-1990s, the overall organization of the health care system has largely been carried over from the Soviet era. Primary



care has been delivered through basic units called *uchastoks*. In rural areas, these districts are served by health posts staffed by midwives or physicians' assistants, while health centers and urban polyclinics are available in larger population centers. The secondary-care network has also been retained from the Soviet era and consisted of *uchastok* hospitals and health centers, district hospitals and polyclinics, and regional hospitals and polyclinics. Medical facilities throughout the country are generally inadequate, with equipment that is both outdated and in poor condition. A survey conducted in the mid-1990s found a high level of dissatisfaction with the health care system on the part of both the general public and health care personnel, as well as widespread support for privatization. As of 1999, there were an estimated 4.2 physicians and 12.1 hospital beds per 1,000 people. As of 1999, total health care expenditure was estimated at 4.6% of GDP.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 9.7 and 13.9 per 1,000 people. There were 1.42 million births in 1999. Infant mortality was 16 per 1,000 live births in 2000 and average life expectancy was 65 years. The total fertility rate in 2000 was 1.3 children per woman during her childbearing years. Children up to one year of age were immunized in 1997 against tuberculosis, 97%; diphtheria, pertussis, and tetanus, 87%; polio, 97%; and measles, 95%.

In 1994, 1.23 million deaths were related to cardiovascular disease. The heart disease mortality rates for Russian men and women were higher than the average for countries of high human development. The likelihood of dying after age 65 of heart disease per 1,000 people was 365 for men and 359 for women in the years 1990–1993. As of 1999, the number of people living with HIV/AIDS was estimated at 130,000 and deaths from AIDS that year were estimated at 850. HIV prevalence was 0.18 per 100 adults.

After the breakup of the Soviet Union diphtheria spread from Russia to its former republics in epidemic numbers. In the Russian Federation, reported diphtheria cases increased from 603 in 1989 to 15,229 in 1993, then to 39,703 in 1994. The mortality rate from diphtheria was 2.8%. The incidence of tuberculosis in 1999 was 123 per 100,000 people. The Russian Federation and countries of Central and Eastern Europe lag behind the West in injury prevention. The accidental death rate for children 5–14 in 1991–93 was 39.6 per 100,000 for boys and 16.4 per 100,000 for girls. Deaths by suicide are also very high in the Russian Federation at 41.7 per 100,000 people for men and 7.9 per 100,000 for women (aged 15–24).

## 42 HOUSING

The right to housing is guaranteed to all citizens by the constitution, but providing for adequate housing for all has become a problem in a time of major economic reforms. In the Soviet-era, most housing (state-owned) was provided free or at very low costs for many citizens. Since 2002, economic reform has called for many residents to begin paying more of the costs for rent, maintenance, and utilities. The government still allows somewhat generous subsidies for low-income families. But the main housing problem seems to be in maintenance and renovation of buildings that are in urgent need of both structural repairs and upgrades in utility systems. As of 1999, about 60% of the housing stock has been privatized.

## 43 EDUCATION

For the year 2000, adult illiteracy was estimated at 0.6% (males, 0.2%; females, 0.8%). Education, mostly free and state funded, is also compulsory for nine years. In 1999 approximately 93% of primary-school-age children were enrolled in school. The state also provides a stipend for higher education. Although Russian is the most common medium of instruction, other languages are also taught, especially at the secondary level. In the early 1990s,

many privately owned institutions were opened, and the education system was modified with the introduction of a revised curriculum. In 1995, 7,849,000 students were enrolled in 66,235 primary schools, with 395,000 teachers. Secondary schools had a total enrollment of 13,732,000 students. The pupil-teacher ratio at the primary level was 19 to 1 in 1999. As of 1999, public expenditure on education was 3.6% of GDP.

At the tertiary level, there were 382,897 teachers and 4,458,363 students in 1995. Approximately 56% of these students were female. The St. Petersburg State University, which was founded in 1724, is well known for its education.

## 44 LIBRARIES AND MUSEUMS

In 1991 Russia's National Library, with branches in Moscow and St. Petersburg, held 62.2 million volumes. In 1995, the country counted 50,032 public libraries, holding in total 983.4 million volumes. Some of the larger collections include the Gorky Moscow Institute of Literature library in Moscow (13.2 million volumes), the State University of Technology library in St. Petersburg (2.9 million volumes), the Bauman Moscow State Engineering University library (three million volumes), the Moscow M. V. Lomonosov State University (7.27 million volumes), the State University at Petersburg (6.4 million volumes), and dozens of other massive collections throughout the country.

Russia has over 1,000 museums. Russian museums house some of the finest collections of European art in the world, the best known of which is the Hermitage in St. Petersburg. Also in St. Petersburg are Dostoevsky Memorial House-Museum, the Literary Museum of the Institute of Russian Literature, and the State Museum of Sculpture, housing the country's largest collection of sculpture. Among the dozens of important museums in Moscow are the State Historical Museum, the State Literature Museum, the Tolstoy House Museum, the Chekhov House Museum, the Paleontological Museum of the Academy of Sciences, and the Cathedral of the Assumption, a religious arts museum housed in a 15th-century cathedral.

## 45 MEDIA

In 1998, Russia had about 30 million main telephone lines, with an additional 2.5 million mobile cellular phones reported in 2000. The telephone system has improved significantly throughout the 1990s. As of 1999, over 1,000 companies were licensed to offer telecommunications services. Some 60 regional capitals had modern digital infrastructures, but services in rural areas remained outdated and inadequate.

Broadcasting is overseen by All-Russian State Television and Radio (Ostankino). In 1998, there were 420 AM and 447 FM radio broadcast stations and over 7,000 television stations. Independent and semi-independent television and radio stations continue to grow in number. In 2000, there were 418 radios and 421 television sets for every 1,000 people. In the same year, there were about 43 personal computers in use for every 1,000 people, with 35 Internet service providers serving 9.2 million users.

In 2002, Russia's major newspapers, all published in Moscow, were: *Moskovski Komsomolets* (Moscow Communist Youth, 2,035,049); *Nezarisimaya Gazeta* (NA); *Trud* (Labor, 1,582,500); and *Rossiiskaya Gazeta* (439,700).

The constitution provides for freedom of the press and mass information, and the government is said at present to respect these provisions. However, the law contains provisions which give broad interpretive authority to government at all levels for the enforcement of secrecy of sensitive information. Russians are enjoying a more free media than at any time in recent history.

## 46 ORGANIZATIONS

The leading opposition movement to the nonpartisan leadership of Russia is Democratic Russia, one of the grassroots political

and social organizations that have emerged in Russia. They are allowed to publicize their activities and operate freely as long as they register with the government. A chamber of commerce that promotes the economic and business activities of the country to the rest of the world operates in Moscow. The Russian Academy of Entrepreneurship assists business owners.

National youth organizations include the Girl Guides and Girl Scouts of Russia, The All-Russia Scout Organizations, the Youth Agrarian Union of Russia, the Siberian Youth Initiative, and YMCA/YWCA. Several women's groups are organized under the umbrella of the Women's Union of Russia.

The International Red Cross and the Red Crescent operate branches throughout the federation.

#### 47 TOURISM, TRAVEL, AND RECREATION

In September 1992, Russia lifted its travel restrictions on foreigners, opening the entire country to visitors and tourists. Moscow is a major tourist destination with many attractions including Red Square, the Kremlin, monasteries and churches, museums and other cultural attractions. The most famous of Moscow's parks and gardens is Gorky Park. St. Petersburg is a beautifully preserved Neoclassical city with palace-lined waterways. Attractions include the State Hermitage Museum, Peter and Paul Fortress, and the Nevsky Prospekt.

In 2000 Russia had 21,169,100 foreign visitors, nearly 90% from Europe. Tourism receipts from 1999 totaled \$7.5 billion. There were 188,255 hotel rooms with 358,142 in 1999.

In 2001 the US government estimated the cost of staying in Moscow at \$294 per day. Daily expenses in St. Petersburg were estimated at \$307, and elsewhere expenses averaged \$216 per day.

#### 48 FAMOUS RUSSIANS

Notable among the rulers of pre-revolutionary Russia were Ivan III (the Great, 1440–1505), who established Moscow as a sovereign state; Peter I (the Great, 1672–1725), a key figure in the modernization of Russia; Alexander I (1777–1825), prominent both in the war against Napoleon and the political reaction that followed the war; and Alexander II (1818–81), a social reformer who freed the serfs. Mikhail Gorbachev (b. 1931) came to power in 1985, initiated reforms of the old Communist system and won the Nobel Peace Prize in 1990.

Mikhail Lomonosov (1711–65), poet and grammarian, also was a founder of natural science in Russia. The poet Gavril Derzhavin (1743–1816) combined elements of topical satire with intimate, lyrical themes. Aleksandar Radishchev (1749–1802) criticized both religion and government absolutism. Nikolay Karamzin (1766–1826), an early translator of Shakespeare, was the founder of Russian Sentimentalism. The fables of Ivan Krylov (1768/69?–1844) exposed human foibles and the shortcomings of court society. Russia's greatest poet Aleksandr Pushkin (1799–1837) was also a brilliant writer of prose. Other outstanding poets were Fyodor Tyutchev (1803–73), Mikhail Lermontov (1814–41), and Afanasy Fet (Shen-shing 1820–92). Nikolay Gogol (1809–52), best known for his novel *Dead Souls* and his short stories, founded the realistic trend in Russian literature. Vissarion Belinsky (1811–48) was an influential critic. Noted radical philosophers were Aleksandr Herzen (1812–70). Nikolay Chernyshevsky (1828–89), and Nikolay Dobrolyubov (1812–91), satirized the weakness of Russian society. Ivan Turgenev (1818–83) is noted for his sketches, short stories, and the novel *Fathers and Sons*. Fyodor Dostoyevsky (1821–81) wrote outstanding psychological novels (*Crime and Punishment*, *The Brothers Karamazov*). Leo (Lev) Tolstoy (1828–1910) perhaps the greatest Russian novelist (*War and Peace*, *Anna Karenina*), also wrote plays, essays and short stories. Aleksandr Ostrovsky (1823–86) was a prolific dramatist. The consummate playwright and short-story writer Anton Chekhov (1860–1904) was the greatest

Russian writer of the late 19th century. Leonid Nikolayevich Aandreyev (1871–1919) wrote plays and short stories. The novels, stories, and plays of Maksim Gorky (Aleksey Peshkov, 1868–1936) bridged the tsarist and Soviet periods. Ivan Bunin (1870–1953) received the Nobel Prize in 1933 for his novels and short stories. Georgy Plekhanov (1856–1918), a Marxist philosopher and propagandist, also was a literary critic and art theorist, as was Anatoly Lunacharsky (1875–1933).

Russian composers of note include Mikhail Glinka (1804–57), Aleksandar Borodin (1833–87), also a distinguished chemist, Mily Balakirev (1837–1910), Modest Mussorgsky (1839–81), Pyotr Ilyich Tchaikovsky (1840–93), Nikolay Rimsky-Korsakov (1844–1908), Aleksandr Skryabin (1871–1915), Sergey Rakhmaninov (1873–1943), Igor Stravinsky (1882–1971), Sergey Prokofyev (1891–1953), Aram Ilyich Khachaturian (1903–78), Dmitry Kabalevsky (1904–87), and Dmitry Shostakovich (1906–75). Two of the greatest basses of modern times are the Russian-born Fyodor Chaliapin (1873–1938) and Alexander Kipnis (1891–1978). Serge Koussevitzky (1874–1951), noted conductor of the Boston Symphony Orchestra, was important in Russian musical life before the Revolution.

Outstanding figures in the ballet are the impresario Sergey Diaghilev (1872–1929); the choreographers Marius Petipa (1819–1910), Lev Ivanov (1834–1901), and Mikhail Fokine (1880–1942); the ballet dancers Vaslav Nijinsky (1890–1950), Anna Pavlova (1881–1931), Tamaara Karsavina (1885–1978), Galina Ulanova (1909–1998), and Maya Plosetskaya (b. 1925); and the ballet teacher Agrippina Vaganova (1879–1951).

Outstanding figures in the theater include Kostantin Stanislavsky (Alekseyev, 1863–1938), director, actor and theoretician; Vladimir Nemirovich-Danchenko (1858–1943), director, playwright, and founder, with Stanislavsky, of the Moscow Art Theater; and Vsevolod Meyerhold (1873–1942), noted for innovations in stagecraft. Important film directors were Vsevolod Pudovkin (1893–1953), Aleksandr Dovzhenko (1864–1956), Sergey Eisenstein (1898–1948), Vasily Shiksin (1929–74), and Andrei Tarkovsky (1932–87).

Varfolomey (Bartolomeo Francesco) Rastrelli (1700–1771) designed many of the most beautiful buildings in St. Petersburg. Other important Russian architects include Vasily Bazhenov (1737–99), Matvey Kazakov (1733–1812), Andreyan Zakharov (1761–1811), and Ivan Starov (1806–58), Vasily Perov (1833/34–82), Vasily Vereshchagin (1842–1904), Ilya Repin (1844–1930), Mikhail Vrubel (1856–1910), Leon (Lev) Bakst (Rosenberg, 1866–1924), and Aleksandr Benois (1870–1960). Modern Russian artists whose work is internationally important include the Suprematist painters Kasimir Malevich (1878–1935) and El (Lazar) Lissitzky (1890–1941), the "Rayonist" painters Natalya Goncharova (1881–1962) and Mikhail Larionov (1881–1964), the Constructivist artist Vladimir Tatlin (1885–1953), and the Spatial sculptor Aleksandar Rodchenko (1891–1956). Famous Russian-born artists who left their native country to work abroad include the painters Alexei von Jawlensky (1864–1941), Vasily Kandinsky (1866–1944), Marc Chagall (1897–1985), and Chaim Soutine (1894–1943) and the sculptors Antoine Pevsner (1886–1962), his brother Naum Gabo (1890–1977), Alexander Archipenko (1887–1964), and Ossip Zadkine (1890–1967).

Prominent Russian scientists of the 19th and 20th centuries include the chemist Dmitry Ivanovich Mendeleev (1834–1907), inventor of the periodic table; Aleksandr Mikhailovich Butlerov (1828–86), a creator of the theory of chemical structure; Nikolay Yegorovich Zhukovsky (1847–1921), a founder of modern hydrodynamics and aerodynamics; Pyotr Nikolayevich Lebedev (1866–1912), who discovered the existence of the pressure of light; Nikolay Ivanovich Lobachevsky (1792–1856), pioneer in non-Euclidean geometry; Ivan Petrovich Pavlov (1849–1936), creator of the theory on the higher nervous systems of animals and man, who received the Nobel Prize in 1904 for his work on

digestive glands; Ilya Ilyich Mechnikov (Elie Metchnikoff, 1845–1916), who received the Nobel Prize in 1908 for his Phagocyte theory; Kliment Arkadyevich Timiryazev (1843–1920), biologist and founder of the Russian school of plant physiology; and Aleksandr Stepanovich Popov (1859–1906), pioneer in radio transmission. Among later scientists and inventors are Ivan Vladimirovich Michurin (1855–1935), biologist and plant breeder; Konstantin Eduardovich Tsiolkovsky (1857–1935), scientist and the inventor in the field of the theory and technology of rocket engines, interplanetary travel and aerodynamics; Vladimir Petrovich Filatov (1875–1956), ophthalmologist; Ivan Pavlovich Bardin (1883–1960), metallurgist; Yevgeny Nikanorovich Pavlovsky (1884–1965), parasitologist; Nikolay Ivanovich Vavilov (1887–1943), geneticist; and Leon Theremin (Lev Termen, 1896–1993), pioneer of electronic music. Cosmonaut Yuri Alekseyevich Gagarin (1934–68) was the first person to ever venture into space.

#### 49 DEPENDENCIES

The Russian Federation has no territories or dependencies.

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# SAN MARINO

The Most Serene Republic of San Marino  
*La Serenissima Repubblica di San Marino*

**CAPITAL:** San Marino

**FLAG:** The flag is divided horizontally into two equal bands, sky blue below and white above.

**ANTHEM:** *Onore a te, onore, o antica repubblica (Honor to You, O Ancient Republic)*.

**MONETARY UNIT:** The Italian lira was replaced by the euro as official currency as of 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

The country issues its own coins in limited numbers as well. Coins of San Marino may circulate in both the republic and in Italy.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; Epiphany, 6 January; Anniversary of St. Agatha, second patron saint of the republic, and of the liberation of San Marino (1740), 5 February; Anniversary of the Arengo, 25 March; Investiture of the Captains-Regent, 1 April and 1 October; Labor Day, 1 May; Fall of Fascism, 28 July; Assumption and August Bank Holiday, 14–16 August; Anniversary of the Foundation of San Marino, 3 September; All Saint's Day, 1 November; Commemoration of the Dead, 2 November; Immaculate Conception, 8 December; Christmas, 24–26 December; New Year's Eve, 31 December. Movable religious holidays include Easter Monday and Ascension.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

San Marino is the third-smallest country in Europe. With an area of 60 sq km (23 sq mi), it extends 13.1 km (8.1 mi) NE-SW and 9.1 km (5.7 mi) SE-NW. Comparatively, the area occupied by San Marino is about 0.3 times the size of Washington, D.C. It is a landlocked state completely surrounded by Italy, with a total boundary length of 39 km (24 mi).

## <sup>2</sup>TOPOGRAPHY

The town of San Marino is on the slopes and at the summit of Mt. Titano (755 m/2,477 ft), and much of the republic is coextensive with the mountain, which has three pinnacles. Each of the peaks is crowned by old fortifications, that on the north by a castle and the other two by towers. Level areas around the base of Mt. Titano provide land for agricultural use.

## <sup>3</sup>CLIMATE

The climate is that of northeastern Italy: rather mild in winter, but with temperatures frequently below freezing, and warm and pleasant in the summer, reaching a maximum of 26°C (79°F). Winter temperatures rarely fall below 7°C (19°F). Annual rainfall averages between 56 and 80 cm (22 to 32 in).

## <sup>4</sup>FLORA AND FAUNA

The republic has generally the same flora and fauna as northeastern Italy. The hare, squirrel, badger, fox, and porcupine are among the more common animals seen. Most of the landscape has been cultivated with orchards, vineyards, and olive groves.

## <sup>5</sup>ENVIRONMENT

Urbanization is the primary concern for the environment; however, the country has shown great care for environmental protection and preservation both within its own borders and in the global arena. Environmental protection is controlled by the Ministry of State for Territory, Environment, and Agriculture. San Marino has no endangered species; however, the lesser horseshoe bat is listed as vulnerable.

## <sup>6</sup>POPULATION

The population of San Marino in 2003 was estimated by the United Nations at 28,000, which placed it as number 189 in population among the 193 nations of the world. In that year approximately 16% of the population was over 65 years of age, with another 15% of the population under 15 years of age. There were 93 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.99%, with the projected population for the year 2015 at 30,000. The population density in 2002 was 450 per sq km (1,166 per sq mi). San Marino is one of the most densely populated countries in the world.

It was estimated by the Population Reference Bureau that 89% of the population lived in urban areas in 2001. The capital city, San Marino, had a population of 4,000 in that year. According to the United Nations, the urban population growth rate for 2000–2005 was 1.0%.

## <sup>7</sup>MIGRATION

Immigrants come chiefly from Italy; emigration is mainly to Italy, the US, France, and Belgium. Foreigners who have been resident in San Marino for 30 years can become naturalized citizens.

In 1999, the net migration rate was 4.23 migrants per 1,000 population. In 2000 the number of migrants living in San Marino was 9,000, approximately one-third of the total population. The government views the migration levels as satisfactory.

## **8 ETHNIC GROUPS**

The native population is predominantly of Italian origin.

## **9 LANGUAGES**

Italian is the official language.

## **10 RELIGIONS**

With few exceptions, the population is Roman Catholic. While Roman Catholicism is dominant, it is not the state religion. The Catholic Church does receive direct benefits from the State, but so do other charities, including two religions—the Waldensian Church and Jehovah's Witnesses. While the country itself provides no statistics on the size of religious groups, estimates indicate that 95% of the total populace is Roman Catholic, with the remaining 5% comprised of members of the Waldensian Church, Jehovah's Witnesses, Baha'is, and Muslims.

## **11 TRANSPORTATION**

Streets and roads within the republic total about 220 km (140 mi) on 2002, and there is regular bus service between San Marino and Rimini. Motor vehicle registrations in 1995 included 22,945 passenger cars and 3,546 commercial vehicles. An electric railroad, 32 km (20 mi) long, between Rimini and San Marino was inaugurated in 1932; damaged as a result of a British air raid on 26 June 1944, it has been out of service since that time. A 1.5-km (0.9-mi) cable-car service from the city of San Marino to Borgo Maggiore is operated by the government. There is helicopter service between San Marino and Rimini in summer.

## **12 HISTORY**

San Marino, the oldest republic in the world, is the sole survivor of the independent states that existed in Italy at various times from the downfall of the Western Roman Empire to the proclamation of the Kingdom of Italy in 1861. (The Vatican City State, which is also an independent enclave in Italy, was not constituted in its present form until the 20th century.)

According to tradition, the republic was founded in AD 301 by Marinus, a Christian stonecutter who fled from Dalmatia to avoid religious persecution; later canonized, St. Marinus is known in Italian as San Marino. If founded at the time asserted by tradition, San Marino is the oldest existing national state in Europe. There was a monastery in San Marino in existence at least as early as 885.

Because of the poverty of the region and the difficult terrain, San Marino was rarely disturbed by outside powers, and it generally avoided the factional fights of the Middle Ages. For a time, it joined the Ghibellines and was therefore interdicted by Pope Innocent IV in 1247–49. It was protected by the Montefeltro family, later dukes of Urbino, and in 1441, with Urbino, it defeated Sigismondo Malatesta and extended the size of its territory. It was briefly held by Cesare Borgia in 1503, but in 1549 its sovereignty was confirmed by Pope Paul III. In 1739, however, a military force under a papal legate, Cardinal Giulio Alberoni, occupied San Marino and unsuccessfully attempted to get the Sanmarinese to acknowledge his sovereignty over them. In the following year, Pope Clement II terminated the occupation and signed a treaty of friendship with the tiny republic. Napoleon allowed San Marino to retain its liberty; the Sanmarinese are said to have declined his offer to increase their territory on the grounds that smallness and poverty alone had kept them from falling prey to larger states.

In 1849, Giuseppe Garibaldi, the liberator of Italy, took refuge from the Austrians in San Marino; he departed voluntarily

shortly before the Austrians were to invade the republic to capture him. San Marino and Italy entered into a treaty of friendship and customs union in 1862. This treaty was renewed in March 1939 and amended in September 1971.

During the period of Mussolini's rule in Italy, San Marino adopted a Fascist type of government. Despite its claim to neutrality in World War II, Allied planes bombed it on 26 June 1944. The raid caused heavy damage, especially to the railway line, and killed a number of persons. San Marino's resources were sorely taxed to provide food and shelter for the over 100,000 refugees who obtained sanctuary during the war.

The elections of 1945 put a coalition of Communists and left-wing Socialists in control of the country. In 1957, some defections from the ruling coalition were followed by a bloodless revolution, aided by Italy, against the government. The leftists surrendered, and some were imprisoned. The rightists, chiefly Christian Democrats, won the election of 1959 and remained in power until 1973, chiefly in coalition with the Social Democrats. In March 1973, after splitting with the Social Democrats, the Christian Democrats formed an unstable coalition with the Socialists. After new elections in May 1978, the Communists, the Socialists, and the Socialist Unity Party, who together commanded a one-seat majority in the legislature, formed a governing coalition; San Marino thus became the only West European country with a Communist-led government. This coalition governed until 1986, when a Communist-Christian Democratic coalition, replaced it; this was the first coalition government formed by these two parties in San Marino's history.

As of 2003, the ruling coalition was composed of the Sanmarinese Christian-Democratic Party and the Sanmarinese Socialist Party. In December 2002, Fiorenzo Stolfi was named secretary of state for foreign and political affairs, the equivalent of the office of a prime minister.

San Marino's high standard of living makes Sanmarinese citizenship a valuable commodity. With the only ways for foreigners to obtain citizenship being to reside in San Marino for 30 years or marry a male citizen, the government passed a law in August 1999 prohibiting female household servants under 50 because of the potential for elderly men to fall for their young female help who may have suspicious motives.

Also in 1999, San Marino joined the European Monetary Union and adopted the euro as its currency. The Europe-wide single currency was forecasted to boost tourism but simultaneously hurt Sanmarinese bank revenues as the banks would no longer be able charge fees for currency exchange. In June 2000, the OECD accused Sanmarinese banks of making the country a "harmful" tax haven; San Marino promised to reform its banking practices.

Because San Marino has a customs union with Italy, it enjoys all of the benefits that flow from European Union membership. However, San Marino's goal ultimately is to become a full-fledged member of the EU.

## **13 GOVERNMENT**

Legislative power is exercised by the Grand and General Council (Consiglio Grande e Generale) of 60 members, regularly elected every five years by universal suffrage at age 18. The Council elects from among its members a State Congress (Congresso di Stato) of 10 members (3 secretaries of state and 7 ministers of state), which makes most administrative decisions and carries them out. In 1960, universal male suffrage was established in place of the previous system, whereby only heads of families voted. Women also received the franchise effective in 1960 and were first permitted to run for office in 1974 (they voted in national elections for the first time in 1964). Nearly 100% of eligible voters participate in elections.

Two members of the Council are named every six months to head the executive branch of the government; one represents the

town of San Marino and the other the countryside. The terms of these officials, called captains-regent (*capitani reggenti*), begin on 1 April and 1 October. The captains-regent, who must be native-born citizens, are eligible for reelection after three years. As of 2003, the captains-regent were Pier Marino Menicucci (PDCS) and Giovanni Giannoni (PSS). The secretary of state for foreign and political affairs serves the function of a prime minister. Fiorenzo Stolfi was chosen to fill this office in December 2002.

#### 14 POLITICAL PARTIES

The political parties in San Marino have close ties with the corresponding parties in Italy. Parties represented in the Grand and General Council following the 2001 elections were as follows: Christian Democratic Party (PDCS), 25; San Marino Socialist Party (PSS), 15; the Party of Democrats (PD), 12; Popular Alliance of Sanmarinese Democrats for the Republic (APDS), 5; Communist Refounding (RCS), 2; and the Sanmarinese National Alliance (ANS), 1.

#### 15 LOCAL GOVERNMENT

San Marino consists of nine administrative divisions or castles (*castelli*): Acquaviva, Borgo Maggiore, Chiesanuova, Domagnano, Faetano, Fiorentino, Monte Giardino, San Marino, and Serravalle. Each castle has an auxiliary council, elected for a four-year term. It is headed by an official called the captain of the castle, who is elected every two years.

#### 16 JUDICIAL SYSTEM

There is a civil court, a criminal court, and a superior court, but most criminal cases are tried before Italian magistrates because, with the exception of minor civil suits, the judges in Sanmarinese cases are not allowed to be citizens of San Marino. Appeals go, in the first instance, to an Italian judge residing in Italy. The highest appellate court is the Council of Twelve, chosen for six-year terms from members of the Grand and General Council. The rights of the accused, including the rights to a public trial, legal counsel and other procedural safeguards, are guaranteed by law and observed in practice.

#### 17 ARMED FORCES

The San Marino militia nominally consists of all able-bodied citizens between the ages of 16 and 55, but the armed forces actually maintained are principally for purposes of ceremonial display; these include the noble guard used in various functions.

#### 18 INTERNATIONAL COOPERATION

San Marino became a member of the UN on 2 March 1992, and it belongs to the OSCE, FAO, IBRD, ICAO, ILO, IMF, ITU, UNCTAD, UNESCO, UPU, WHO, and WIPO. San Marino sends its own delegation to the 35-nation Conference on Security and Cooperation in Europe and is a member of the World Tourism Organization and the European Conference of Postal and Telecommunications Administrations.

#### 19 ECONOMY

Farming was formerly the principal occupation, but it has been replaced in importance by light manufacturing. However, the main sources of income are tourism, which accounted for more than 50% in 2001, and remittances from Sanmarinese living abroad. Some government revenue comes from the sale of postage stamps and coins and from Italy's subsidy to San Marino in exchange for which San Marino does not impose customs duties. The GDP growth has been impressive and consistent, averaging 7.68% 1997 to 2001. Inflation, at 2% in 1997, increased to 3.3% in 2001, averaging 2.8% across the five-year period. Unemployment dropped steadily from 4.9% in 1997 to 2.6% in 2001. In purchasing power parity (PPP) terms, per capita income was at \$34,600 in 2001.



LOCATION: 12°27' E and 43°56' N.

#### 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 San Marino's gross domestic product (GDP) was estimated at \$940 million. The per capita GDP was estimated at \$34,600. The annual growth rate of GDP was estimated at 7.5%. The average inflation rate in 2001 was 3.3%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange.

#### 21 LABOR

The labor force in 1999 totaled about 18,500. The service sector provided employment for 57% of the workforce, with industry accounting for 42% and agriculture 1%. The unemployment rate in 2001 stood at 2.6%.

Labor federations include the Democratic Federation of Sanmarinese Workers, affiliated with the International Confederation of Free Trade Unions, and the General Federation of Labor. About 50% of the workforce is unionized. The minimum working age is 16 without any exceptions. In 2001, the minimum wage was \$1,200 per month although most wages are higher than the minimum.

## 22 AGRICULTURE

About 17% of the land is arable. Annual crop production includes wheat and grapes, as well as other grains, vegetables, fruits, and fodder.

## 23 ANIMAL HUSBANDRY

Livestock raising uses some 1,400 hectares (3,500 acres), or about 23% of the total area. Cattle, hogs, sheep, and horses are raised.

## 24 FISHING

There is no fishing.

## 25 FORESTRY

Small quantities of wood are cut for local use.

## 26 MINING

San Marino had no commercial mineral resources.

## 27 ENERGY AND POWER

Electric power is imported from Italy.

## 28 INDUSTRY

Manufacturing is limited to light industries such as textiles, bricks and tiles, leather goods, clothing, and metalwork. Cotton textiles are woven at Serravalle; bricks and tiles are made in La Dogana, which also has a dyeing plant; and cement factories and a tannery are located in Acquaviva, as well as a paper-making plant. Synthetic rubber is also produced. The pottery of Borgo Maggiore is well known. Gold and silver souvenirs are made for the tourist trade. Other products are Moscato wine, olive oil, and baked goods.

## 29 SCIENCE AND TECHNOLOGY

Sanmarinese students generally pursue their scientific and technical training abroad, since science and technology resources are domestically limited. The Università Degli Studi, founded in 1987, has a department of technology. The Institute of Cybernetics, founded in 1965, offers courses in computer science.

## 30 DOMESTIC TRADE

There are small general stores in the capital and the smaller towns. Billboards and newspapers are the main advertising medium. A weekly market is held at Borgo Maggiore, which also sponsors an annual fair for the sale of cattle and sheep. Most retail trade within the country is focused on goods and services that support the tourism industry.

## 31 FOREIGN TRADE

Records of foreign trade are not published, but it is known that imports far exceed exports. Principal exports are wine, textiles, furniture, quarried stone, ceramics, and handicrafts. The chief imports are raw materials and a wide variety of consumer goods. San Marino has a customs union with Italy.

In 1999, San Marino joined the European Monetary Union (EMU), further strengthening its ties to the EU.

## 32 BALANCE OF PAYMENTS

Since imports and exports are not subject to customs duties, no record is kept of foreign payments transactions. Receipts from tourism, remittances from Sanmarinese working abroad, and sales of postage stamps to foreign collectors are principal sources of foreign exchange.

## 33 BANKING AND SECURITIES

The principal bank, the Cassa di Risparmio, was founded in 1882. Other banks include the Banca Agricola and the Cassa

Rurale. There are no securities transactions in San Marino. In 1999 San Marino joined the European Monetary Union (EMU) and adopted the euro.

## 34 INSURANCE

Several major Italian insurance companies have agencies in San Marino.

## 35 PUBLIC FINANCE

The government derives its revenues mainly from the worldwide sale of postage stamps, direct and indirect taxes, and yearly subsidies by the Italian government. State budgets have increased sharply in recent years.

The US Central Intelligence Agency (CIA) estimates that in 2000 San Marino's central government took in revenues of approximately \$400 million and had expenditures of \$400 million.

The following table shows an itemized breakdown of government revenues. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	400
Tax revenue	79.6%	318
Non-tax revenue	19.9%	79
Capital revenue	0.5%	2
Grants	0.3%	1

## 36 TAXATION

Legislation introducing San Marino's first income tax was passed by the Grand and General Council in October 1984. A general income tax is applied progressively to individuals (12-50% in 1992) and a flat rate of 24% to corporations. Also levied are a stamp duty, registration tax, mortgage tax, and succession duty.

## 37 CUSTOMS AND DUTIES

San Marino's trade policy is governed by its customs union with Italy. There is a one-phase duty system on imported goods, which closely follows the rates of the Italian value-added tax (VAT) system. In 1992, there was a 14% tax on imports. In 1999 San Marino joined the European Monetary Union.

## 38 FOREIGN INVESTMENT

Information on foreign investment is not available.

## 39 ECONOMIC DEVELOPMENT

In addition to promoting tourism in San Marino, the government has encouraged the establishment of small-scale industries and service-oriented enterprises (40-60 employees) by offering tax exemptions for 5-10 years.

## 40 SOCIAL DEVELOPMENT

A social insurance system provides pensions for old-age and disability. Survivorship benefits are payable to an unemployed widow or widower and discontinued upon remarriage. Employers, employees, and the government all contribute to the system. There is universal medical coverage and maternity benefits of 100% of earnings for five months. All employees and self-employed persons have work injury insurance.

The law mandates that women have equal access to employment opportunities, and in practice women face little or no discrimination in employment and in pay. Women actively participate in all careers including high public office. In 2000 Parliament approved a measure that gives women the same rights as men to transmit citizenship to a spouse or child. Laws protect women from violence, and instances of spousal abuse are infrequent.

The government is committed to protecting human rights. Prisons meet international standards and are open for inspection by human rights monitors.

#### 41 HEALTH

Public health institutions include the State Hospital (opened in 1975), a dispensary for the poor, and a laboratory of hygiene and prophylaxis. All citizens receive free, comprehensive medical care. As of 1990, there were 2.5 physicians, 5.1 nurses, 0.3 midwives, 0.4 dentists, and 0.5 pharmacists per 1,000 people.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 10.6 and 7.8 per 1,000 people. Estimated average life expectancy was 81.3 years and infant mortality was estimated at 6.1 per 1,000 live births. As of 1996, the estimated maternal mortality was 5 per 100,000 live births.

The immunization rates for children under one year old in San Marino were as follows as of 1996: diphtheria, pertussis, and tetanus, 93%; polio, 100%; measles, 96%; and hepatitis B, 98%. No polio cases were reported in 1995 and only two tuberculosis cases were reported in 1994. One case of AIDS was reported in 1992.

#### 42 HOUSING

In 1986, San Marino had 7,926 dwellings, virtually all with electricity and piped-in water. Most new construction is financed privately. The housing stock for the nation is generally adequate to supply the population. Government concerns are primarily preventing over construction of rural areas.

#### 43 EDUCATION

Primary education is compulsory for all children between the ages of 6 and 14; the adult literacy rate is about 98%. The program of instruction is patterned after the Italian curriculum, and San Marinese school certificates are recognized by Italy. Children go through five years of primary education followed by three years of secondary education at the first stage and a further five years of higher secondary and pre-university education. In 1997, there were 14 elementary schools, with 1,170 students and 221 teachers. Student-to-teacher ratio stood at five to one. Middle and upper-secondary schools enrolled 1,192 pupils during the same year. San Marinese students are able to pursue higher education at Italian universities. There are also vocational training schools and a technical institute.

#### 44 LIBRARIES AND MUSEUMS

In the capital city is the Biblioteca di Stato, containing a library of some 110,000 books, documents, and pamphlets. There is also a museum in Borgia Maggiore devoted to objects connected with Garibaldi's stay in the republic. The Palazzo del Valloni also houses the state archives, as well as a collection of rare coins and medals. The State University has a small collection of 23,000 volumes. The Palazzo del Governo (built in 1894) and most other large buildings in the capital are of comparatively recent date, but many monuments have been rebuilt in an earlier style. In 2001, there were 10 museums in the country. One of them is devoted to the postage stamps of San Marino and other countries. The National Gallery of Modern Art is also in San Marino. The 14th-century church of San Francesco has paintings by several minor masters. The three old fortresses of Guaita, Fratta, and Montale are situated on the three pinnacles of Mt. Titano.

#### 45 MEDIA

In 1998, there were 3 FM radio stations and one television station receiving mostly foreign broadcasts. There were 595 radios and 357 television sets per 1,000 population in 1997. An automatic telephone system, integrated into Italy's system, served 18,000 telephones in 1998. The same year, there were an

additional 3,010 mobile cellular phones in use throughout the country.

In 2002, there were five major daily newspapers: *Il Nuovo Titano* (circulation 1,300), *Riscossa Socialista*, *Notiziario*, *San Marino*, and *La Scintilia*. There are also a number of government bulletins.

The law provides for freedom of speech and of the press and the government generally respects these rights in practice.

#### 46 ORGANIZATIONS

National youth organizations include the Young Christian Democrats and The Catholic Guide and Scout Association of San Marino. The Red Cross has a national chapter.

#### 47 TOURISM, TRAVEL, AND RECREATION

The government has promoted tourism so successfully that in summer during the 1980s the number of San Marino residents was often exceeded by the number of visitors (20,000–30,000 daily). Growth in the tourist industry has increased the demand for San Marino's stamps and coins, gold and silver souvenirs, handicrafts, and pottery.

Principal attractions are the three medieval fortresses at the summit of Mt. Titano and the magnificent view from there of Rimini and the Adriatic Sea. The State Tourism, Sports, and Entertainment Board maintains various recreational facilities.

In 2000, there were 3,071,000 foreign visitors. There were 631 hotel rooms with 1,625 beds and a 39% occupancy rate that year. In 2001, the US Department of State estimated the daily cost of a stay in San Marino at about \$150.

#### 48 FAMOUS SANMARINESE

Giambattista Belluzzi, a 16th-century military engineer in the service of Florence, was born in San Marino. Well-known Italians who were associated with San Marino include Cardinal Giulio Alberoni (1664–1752), who attempted to subject the republic to papal domination in 1739–40; Count Alessandro Cagliostro (Giuseppe Balsamo, 1743–95), a Sicilian adventurer, imposter, and alchemist; Bartolommeo Borghesi (1781–1860), an antiquarian, epigrapher, and numismatist, who resided in San Marino from 1821 to 1860; and Giuseppe Garibaldi (1807–82), the great Italian patriot, who obtained refuge from the Austrians in San Marino in 1849.

#### 49 DEPENDENCIES

San Marino has no territories or colonies.

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# SERBIA AND MONTENEGRO

**CAPITAL:** Belgrade

**FLAG:** The flag is a tricolor of blue, white, and red horizontal stripes.

**ANTHEM:**

**MONETARY UNIT:** The new dinar (JD) replaced the dinar on 24 January 1994. As of May 2003, JD1 = \$0.1696 (or \$1 = JD58.95).

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** New Year's Day, 1 and 2 January; Orthodox Christmas, 7 January; Orthodox New Year, 13 January; Unification of Serbia, 28 March; FR Yugoslavia Day, 27 April; Labor Day, 1 May; Victory Day, 9 May; St. Vitus Day, 28 June; Serbian Uprising, 7 July.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Serbia and Montenegro, formerly known as Yugoslavia, is situated in southeastern Europe along the Adriatic Sea. The country extends over the middle of the Balkan Peninsula and along the southern tip of the Pannonian Plain. The total area is 102,350 sq km (39,518 sq mi). The entire country is slightly smaller than the state of Kentucky. Serbia and Montenegro is bordered on the N by Hungary, on the NE by Romania, on the E by Bulgaria, on the S by Macedonia and Albania, on the SW by the Adriatic Sea and a narrow strip of Croatia, on the W by Bosnia and Herzegovina, and on the NW by Croatia; total land boundary length is 2,246 km (1,396 mi) and the coastline is 199 km (124 mi). There are territorial disputes with Bosnia and Herzegovina over Serbian-populated areas.

Serbia and Montenegro's capital is Belgrade, situated in northcentral Serbia.

## <sup>2</sup>TOPOGRAPHY

Rich fertile plains are found in the Serbian north, while in the east there are limestone ranges and basins. Serbia and Montenegro's mountains and uplands are in the southeast. The shoreline of southwestern Montenegro is highly elevated, with no offshore islands. Serbia and Montenegro has 15 mountains with elevations exceeding 2,000 m (6,560 ft). The highest point is Daravica, in the Prokletija range, at 2,656 m (8,714 ft).

## <sup>3</sup>CLIMATE

In the north, winters are cold and summers are hot and humid. In the central region, the climate is continental and Mediterranean. The Adriatic climate along the south brings hot and dry summers and relatively cold winters with heavy snowfall inland. Podgorica, located in the southwest portion of the country, is the warmest city, with an average July temperature of 26°C (80°F) and an average January temperature of 5°C (41°F). Annual precipitation in most of the country is 56 to 190 cm (22 to 75 in).

## <sup>4</sup>FLORA AND FAUNA

The animals found in Serbia and Montenegro include types of hare, pheasant, deer, stag, wild boar, fox, chamois, mouflon, crane, duck, and goose.

## <sup>5</sup>ENVIRONMENT

Coastal waters are polluted from sewage outlets, especially in resort areas such as Koror. Industrial wastes are dumped into the Sava, which flows into the Danube. Air pollution is a problem around Belgrade and other industrial cities. Air pollution in the Belgrade area has fallen in recent years, from 605 to 132 micrograms per cu m between 1990 and 1995. Thermal energy plants utilize technology from the 1950s and mostly burn lignite; since combustion is inefficient, air pollution is a major problem in Kosovo. Destructive earthquakes are a natural hazard.

In 2001, Serbia and Montenegro had 104 protected areas, covering about 3.3% of the nation's total land area. There are four Wetlands of International Importance and one World Heritage Site. As of 2001, 12 mammal species, 8 bird species, and 50 plant species are threatened. The endangered list includes Atlantic sturgeon, slender-billed curlew, bald ibis, Danube salmon, and beluga.

## <sup>6</sup>POPULATION

The population of Serbia and Montenegro in 2003 was estimated by the United Nations at 10,527,000, which placed it as number 74 in population among the 193 nations of the world. Approximately 10 million resided in Serbia, with the remainder in Montenegro. In 2003 an estimated 14% of the population was over 65 years of age, with another 20% of the population under 15 years of age. There were 99 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.08%, with the projected population for the year 2015 at 10,445,000. The population density in 2002 was 104 per sq km (270 per sq mi).

It was estimated by the Population Reference Bureau that 52% of the population lived in urban areas in 2001. The capital city,

Belgrade, had a population of 1,482,000 in that year. Other large cities include Novi Sad, 179,626; Nis, 175,391; and Pristina, 155,499. According to the United Nations, the urban population growth rate for 2000–2005 was 0.6%.

## 7 MIGRATION

During the 1960s and 1970s, many Serbs fled from the Yugoslav Socialist Federal Republic, seeking political and economic freedom. The breakup of the Yugoslav SFR in the early 1990s and the ethnic hostilities that came in its aftermath resulted in enormous migrations to and from its various former republics. During the first half of 1999, the situation of refugees and internally displaced people deteriorated even further. As of 30 June 1999, UNHCR reported 508,000 refugees from Bosnia and Herzegovina and Croatia; 770,000 returnees to Kosovo, as well as 500,000 affected remainees; 220,000 Serb, Montenegrin, and Roma internally displaced persons from Kosovo in the rest of former Yugoslavia; 7,700 mostly ethnic Albanian internally displaced persons from Kosovo in Montenegro (down from a peak figure of 69,700); and 30 mandate refugees from countries outside the former Yugoslavia.

In 2000 the net migration rate was -1.9 migrants per 1,000 population, down from 3.9 migrants per 1,000 in 1990. The total number of migrants in 2000 was 626,000. The government views the migration levels as too high.

## 8 ETHNIC GROUPS

Ethnic Serbs constitute a majority in Serbia and Montenegro, at about 63%. Ethnic Albanians account for about 14% of the population and are concentrated in the Kosovo region of southwest Serbia. Montenegrins are a distinct ethnicity, accounting for 6% of the population and residing almost exclusively in Montenegro. Ethnic Hungarians make up about 4% of the population and live in northern Serbia near the Hungarian border. The remaining 13% consists mostly of Slavic Muslims, Bulgarians, Slovaks, Macedonians, Croats, Roma, Ruthenians, Romanians, Vlachs, Bunjevci, and Turks.

## 9 LANGUAGES

Serbian is the principal language of 95% of the population; Albanian accounts for the remaining 5%.

## 10 RELIGIONS

The ancestors of the Serbs converted to Christianity in the 9th century, and sided with Eastern Orthodoxy after the Great Schism of 1054 that split Christendom between the Eastern and Roman Churches. Islam came to the area from the Ottoman Turks in the 15th century. Though there is no state religion, the Serbian Orthodox Church does receive some preferential treatment from the state.

About 65% of Serbia and Montenegro's population is Orthodox. Muslims account for 19%; Roman Catholics, 4%; Protestants, 1%; and others, 11%. Protestant denominations include Baptists, Adventists, Reformed Christians, Evangelical Christians, Evangelical Methodists, Jehovah's Witnesses, the Church of Christ, and Pentecostals. There is a small Jewish community in the country.

## 11 TRANSPORTATION

In 2002, Serbia and Montenegro had 4,059 km (2,522 mi) of railroads, including 1,377 km (856 mi) of electrified track. Railways connect Belgrade with Budapest and Zagreb. The Belgrade-Bar line links Serbia to Montenegro and terminates at the Adriatic Sea. Rail service is provided by locomotives manufactured in the 1950s and 1960s.

Road length totaled 48,603 km (25,230 mi) in 2002, of which 28,822 km (17,910 mi) were paved, including 560 km (348 mi) of expressways. While the freeway between Belgrade and Zagreb

is officially open, the lack of normal relations between Serbia and Montenegro and Croatia has kept commercial traffic on the highway to a minimum. In 2000, there were 2,694,700 passenger cars and 287,400 commercial vehicles in Serbia and Montenegro.

The Danube, Sava, and Tisa are important commercial rivers, with ports at Belgrade, Novi Sad, Sabac, Pancevo, Smederevo, and Prahovo. Serbia's river fleet has the second largest transport capacity in Europe. The merchant marine fleet consisted of 1 Montenegrin ship in 2002, totaling 2,437 GRT.

There were 46 airports (Serbia 43, Montenegro 5) in 2001, of which 19 had paved runways. Yugoslav Aero Transport (YAT) operates from Belgrade. YAT is considering upgrading its aging fleet for European destinations. Passengers carried on scheduled domestic and international flights in 2001 were 1,116,600.

## 12 HISTORY

### Serbia

The Serbs, one of the large family of Slavic nations, first began settling in the Balkans around the 7th century in the areas now known as Bosnia, Kosovo, and Montenegro, straddling the line that since AD 395 had divided the Eastern and Western halves of the Roman Empire.

Tracing the origins of the Serbs (and Croats) has fueled many debates among historians, but there seems to be a consensus on their Sarmatian (Iranian) origin. Having assimilated into the Slavic tribes, the Serbs migrated with them west into central Europe (White Serbia) in the Saxony area and from there moved to the Balkans around AD 626 upon an invitation by the Byzantine emperor Heraclius to assist him in repelling the Avar and Persian attack on Constantinople. Having settled in the Balkan area the Serbs organized several principalities of their own, made up of a number of clans headed by leaders known as *zupans*. Both the Byzantine Empire and the Bulgars tried to conquer them, but the Serbs were too decentralized to be conquered.

Between the 9th and 12th centuries, several Serbian principalities evolved, among them Raška in the mountainous north of Montenegro and southern Serbia, and Zeta (south Montenegro along the Adriatic coast), whose ruler Mihajlo (Michael) was anointed king by Pope Gregory VII in 1077.

In the late 10th century the Bulgarian khan (leader) Samuil extended his control over Bosnia, Raška, and Zeta, north to the Sava River, and south over Macedonia. Raška became the area from where the medieval Serbian empire developed. Stephen Nemanja, grand zupan of Raška, fought against the Byzantines in AD 1169, and added Zeta to his domain in 1186. He built several Serbian monasteries, including Hilandar on Mount Athos. His son, Rastko, became a monk (Sava) and the first Serbian archbishop of the new Serbian Autocephalous Church in 1219. The second son, Stephen, received his crown from Pope Innocent IV in 1202. Stephen developed political alliances that, following his death in 1227, allowed Serbia to resist the pressure from Bulgaria and, internally, keep control over subordinate zupans. Archbishop Sava (later Saint Sava) preferred the Byzantine Church and utilized the Orthodox religion in his nation-building effort. He began by establishing numerous Serbian-Orthodox monasteries around Serbia. He also succeeded in turning Zeta from Catholicism to Serbian Orthodoxy.

The medieval Serbian empire, under Stephen Dušan the Mighty (1331–55) extended from the Aegean Sea to the Danube (Belgrade), along the Adriatic and Ionian coasts from the Neretva River to the Gulf of Corinth and controlled, aside from the central Serbian lands, Macedonia, Thessaly, the Epirus, and Albania. The Serbian Church obtained its own patriarchate, with its center in Peć. Serbia became an exporting land with abundant crops and minerals. Dušan, who was crowned tsar of "the Serbs and Greeks" in 1346, gave Serbia its first code of laws based on a

combination of Serbian customs and Byzantine law. His attempt to conquer the throne of Byzantium failed, however, when the Byzantines called on the advancing Ottoman Turks for help in 1345. Even though Dušan withstood the attacks from the Turks twice (in 1345 and 1349), the gates to Europe had been opened, and the Ottoman Turks had initiated their campaign to subjugate the Balkans.

### Under Ottoman Rule

Dušan's heirs could not hold his empire together against the Turks and the Nemanja dynasty ended with the death of his son Stephen Uroš in 1371, the same year his brothers Vukašin and Ivan Ugleš were killed at the battle of Marica. The defeat of the Serbs at Kosovo Polje in 1389 in an epochal battle that took the lives of both Sultan Murad I and Serbian prince Lazar left Serbia open to further Turkish conquest. Following a series of wars, the Turks succeeded in overtaking Constantinople in 1453 and all of Serbia by 1459. For the next three-and-a-half centuries, Serbs and others had to learn how to survive under Ottoman rule.

The Turks did not make any distinctions based on ethnicity, but only on religion. Turkish Muslims were the dominant class while Christians and Jews were subordinated. While maintaining their religious and cultural autonomy, the non-Turks developed most of the nonmilitary administrative professions and carried on most of the economic activities, including internal trade and trade with other countries of the Christian world. There was no regular conscription of non-Turks into the sultan's armies, but non-Turks were taxed to pay for defense. Christian boys between the age of eight and twenty were forcibly taken from their families to be converted to Islam and trained as "Janissaries" or government administrators. Some these former Christians became administrators and even became grand viziers (advisers) to sultans.

Urban dwellers under Ottoman rule, involved in crafts, trade, and the professions, fared much better than the Christian peasantry, who were forced into serfdom. Heavy regular taxes were levied on the peasants, with corruption making the load so unbearable that the peasants rebelled.

Two distinct cultures lived side by side—Turkish Muslim in cities and towns as administrative centers and Christian Orthodox in the countryside of Serbia. The numerous Serbian monasteries built around the country since the Nemanja dynasty became the supportive network for Serbian survival. The Serbian Church was subjected after 1459 to the Greek patriarchate for about a century until a Serbian patriarchate emerged again. The Serbian patriarchate covered a large area from north of Ohrid to the Hungarian lands north of the Danube and west through Bosnia.

### The Serbian Diaspora

Over the two centuries 1459–1659 many Serbs left their lands and settled north of the Sava and Danube Rivers where Hungary had promised their leader ("Vojvoda") an autonomous arrangement in exchange for military service against the Turks. The region is called "Vojvodina" by Serbs, even though the Hungarians had reneged on their promise of autonomy. Fleeing the Turkish conquest many Serbs and Croats settled in Venetian-occupied Dalmatia and continued fighting against the Turks from fortified areas. The wars between Austria and the Turks in the late 17th through the mid-18th centuries caused both mass migrations from Serbia and the hardening of Ottoman treatment of their Christian subjects.

Following the defeat of the Turks in 1683 at the gates of Vienna by a coalition led by Poland's king Jan Sobieski, the Christian armies pursued the Turks all the way to Macedonia and had a good chance to drive the Turks off the European continent. Turk reprisals were violent and many Serbs fled, leaving Serbian lands, particularly Kosovo, unpopulated. Albanians, whom the

Turks favored because they were mostly Muslims, moved in. Conversion to Islam increased considerably.

A second large-scale migration took place 50 years later, after the 1736–39 Austrian defeat by the Turks. All these movements of population resulted in the loss of the Kosovo area—the cradle of Serbian nationhood—to Albanians. As a result, the Serbs were unable to give up control over an area to which they feel a tremendously deep emotional attachment, even though they represent only about 10% of its population. This situation persisted and remained unresolved as of the early 21st century.

### Serbian Revolts and Independence

Meanwhile, two areas of active Serbian national activity developed, one under the Turks in the northern Šumadija region and the other in Hungary. Šumadija, a forested region, became the refuge for many *hajduks* (Serbian "Robin Hoods") that raided Turkish establishments. These hajduks were legendary heroes among the Serbian people.

In 1805, the Serbs defeated the Turks and gained control of the Belgrade region. The sultan agreed to Serbian terms for political autonomy in September 1806. A partially elected government structure was established, and by 1811 the Serbian assembly confirmed Karadjordje as supreme leader with hereditary rights. The drive of Serbia for complete independence was thwarted, however, because Serbia was still under Ottoman rule. The Turks reoccupied Serbia by 1813, retaliating against the Serbs by pillaging, looting, enslaving women and children, while killing all males over age 15, and torturing any captured leader.

A second uprising by the Serbs occurred in 1815 and spread all over Šumadija. It was led by Miloš Obrenović, who had participated in the first revolt. Successful in repelling Turkish forces, Miloš gained the support of the Russian tsar, and after some six months he negotiated an agreement giving Serbia a *de facto* autonomy in its internal administration. By 1830, Serbia had gained its full autonomy and Miloš was recognized as an hereditary prince of Serbia. Serbia was internationally accepted as a virtually independent state.

Miloš Obrenović was an authoritarian ruler who had to be forced to promulgate a constitution for Serbia, establishing a council of chiefs sharing power with him. In 1838 a council was appointed to pass laws and taxes, a council of ministers was created, and provisions were formulated for an eventual assembly. A succession of rulers were installed and deposed over the next decade until, in 1848, the Serbian assembly demanded the incorporation of Vojvodina into Serbia.

The 1858 assembly restored Miloš Obrenović to power, but he died in 1860 and was succeeded, again, by his son Mihajlo. Mihajlo built up the Serbian army to fight a war of liberation against the Turks as a first step towards the goal of a Greater Serbia. Mihajlo developed a highly centralized state organization, a functioning parliament, two political parties, a judicial system, and urban educational institutions prior to his murder in 1868. Mihajlo's cousin, Milan, succeeded him, and accomplished total independence from the Ottomans in 1882. Despite this success, during the same period Austria conquered Bosnia and Herzegovina, badly wanted by Serbia. Milan became dependent on Austria when that country saved Serbia from an invasion by Bulgaria.

Milan Obrenović abdicated in 1889 in favor of his son Alexander, who abolished the constitution, led a corrupt and scandalous life, and was murdered along with his wife, the premier, and other court members by a group of young officers in June 1903. The assembly then called on Peter, Alexander Karadjordjević's son, to take the crown. Under Peter Karadjordjević, a period of stable political and economic development ensued, interrupted by the 1908 Austrian annexation of Bosnia and Herzegovina, the 1912 and 1913 Balkan wars, and World War I (1913–18).



LOCATION: 44°N, 21°E. BOUNDARY LENGTHS: Romania, 476 kilometers (296 miles); Bulgaria, 318 kilometers (198 miles); Macedonia, 221 kilometers, (137 miles); Albania, 287 kilometers (178 miles); Croatia (south), 25 kilometers (16 miles); Bosnia and Herzegovina, 527 kilometers (327 miles); Croatia (north), 241 kilometers (150 miles); Hungary, 151 kilometers (94 miles); Adriatic Sea coastline, 199 kilometers, (124 miles).

**The Balkan Wars**

Austria’s annexation of Bosnia and Herzegovina was carried out in 1908 with the full backing of Germany. The Serbs saw Austria’s move as a serious blow to their goal of a Greater Serbia with an outlet to the Adriatic Sea through Bosnia and

Herzegovina. They turned to the only other possible access routes to the sea—Macedonia, with its port city of Salonika, and the northern coast of Albania. The Balkan countries (Serbia, Bulgaria, Montenegro, and Greece) formed the Balkan League and attacked Turkey in 1912, quickly defeated them and driving

them to the gates of Constantinople. Austria and Italy opposed a Serbian outlet to the Adriatic in Albania, supporting instead an independent Albanian state and assisted its establishment in 1913. Serbia, deprived of access to the sea, requested it from Bulgaria. Bulgaria responded by attacking Serbia and Greece, hoping to obtain all of Macedonia. The resulting second Balkan War ended with the defeat of Bulgaria by Serbia, Montenegro, Greece, Romania, and Turkey, which gained back Adrianople and Thrace. Romania gained northern Dobrudja, Serbia kept central and northern Macedonia, and Greece was given control over the southern part with Salonika and Kavalla in addition to southern Epirus.

Austria viewed Serbian expansion with great alarm, and the "Greater Serbia" plans became a serious threat to the Austro-Hungarian empire. The Austro-Hungarians felt Serbia had to be restrained by whatever means, including war. They needed only a spark to ignite a conflagration against the Serbs. World War I and Royal Yugoslavia

The spark was provided by the 28 June 1914 assassination in Sarajevo of Austria's Archduke Ferdinand and his wife. The archduke's visit to Sarajevo during large-scale maneuvers was viewed as a provocation by Bosnian Serbs, and they conspired to assassinate him with the assistance of the Serbian secret organization, Black Hand, which had also been behind the murder of Serbian king Miloš and his wife in 1903.

Austria presented an ultimatum to Serbia on 23 July with 10 requests that were accepted by Serbia in a desperate effort to avoid a war. Austria, however, declared war on Serbia on 28 July 1914. They began bombing Belgrade the same day and sent armies across the Danube and Sava rivers to invade Serbia on 11 August 1914, taking the Serbs by total surprise. The Serbian army twice repelled the Austrian forces in 1914, with tremendous losses in men and materials and civilian refugees. In addition, a typhus epidemic exacted some 150,000 victims among Serbian soldiers and civilians throughout Serbia, where there were almost no doctors or medical supplies. Still, an army of some 120,000 men joined the Allied forces holding the Salonika front in the fall of 1916. From there, after two years, they were successful in driving the Austrian forces out of Serbia in October 1918.

The Serbian elite's political goal for the main outcome of World War I was the same—a greater Serbia, with the liberation of their South Slavic brethren, particularly Serbs, from the Austro-Hungarian yoke. The dissolution of the Austro-Hungarian empire was not yet an operational concept. On 20 July 1916 the Corfu Declaration delineated the future joint state of Serbs, Croats, and Slovenes while treating both Macedonians and Montenegrins as Serbs.

But Austro-Hungary was losing the war and disintegrating from the inside. In May 1917, the "Yugoslav Club" in the Vienna parliament, consisting of deputies from Slovenia, Istria, and Dalmatia issued a declaration demanding the independence of all Slovenes, Croats, and Serbs united in one national state. (The phrase "under the scepter of the Hapsburgs" was added to their declaration for safety reasons, to avoid prosecution for treason.) Poles, Czechs, and Slovaks were also agitating for their independence, and they all had received support from their communities in the United States. On 20 October 1918, US President Woodrow Wilson declared his support for the independence of all the nation subjects of the Austro-Hungarian monarchy.

Under the leadership of Monsignor Anton Korošec, a council of Slovenes, Croats, and Serbs was formed in Zagreb, Croatia, to negotiate a union with the Kingdom of Serbia. The Serbian army entered Belgrade on 1 November 1918 and proceeded to take over the Vojvodina region. The armistice ending World War I was signed on 3 November 1918, and on 6–9 November a conference was held in Geneva by Serbia's prime minister Nikola Pašić, Monsignor Korošec, and the Yugoslav Committee.

The conference was empowered by the Zagreb Council to negotiate for it with the Allies. Prime Minister Pašić could not ignore the provisional government set up by elected representatives of the Slovenes, Croats, and Serbs. Thus, Pašić signed a declaration setting up a joint provisional government with the right of the National Council in Zagreb to administer its territories until a constitutional assembly could be elected to agree on the form of government for the new state. However, the Serbian government reneged on Pašić's commitment. The National Council delegation with Monsignor Korošec was detained abroad and, given the pressures from the ongoing Italian occupation of Slovene and Croat territories and the urgent need for international recognition, the National Council sent a delegation to Belgrade on 27 November 1918 to negotiate terms for unification with Serbia. But time was running out and the unification was proclaimed on 1 December 1918 without any details on the nature of the new state, since Bosnia and Herzegovina, Vojvodina, and Montenegro had already voted for their union with Serbia.

The Corfu declaration of 1917 had left open the issue of the unitarist or federalist structure of the new state by providing for a constitutional assembly to decide the issue on the basis of a "numerically qualified majority." Serbs interpreted this to mean a simple majority whereas others advocated a two-thirds majority. Following the 28 November 1920 elections, the simple majority prevailed, and a constitution (mirroring the 1903 constitution of Serbia) for a unitary state was approved on 28 June 1921 by a vote of 223 to 35, with 111 abstentions out of a total of 419 members. The 50 members of the Croatian Peasant Party refused to participate in the work of the assembly, advocating instead an independent Croatian Republic.

After 10 years of a contentious parliamentary system that ended in the murder of Croatian deputies and their leader Stjepan Radić, King Alexander abrogated the 1921 constitution, dissolved the parliament and political parties, took over power directly, renamed the country "Yugoslavia," and abolished the 33 administrative departments.

A new policy was initiated with the goal of creating a single "Yugoslav" nation out of the three "tribes" of Serbs, Croats, and Slovenes. In practice, this meant the Serbian king's hegemony over the rest of the nation. The reaction was intense, and King Alexander himself was assassinated in Marseilles in 1934. Alexander's cousin, Prince Paul, assumed power and managed to reach an agreement in 1939 with the Croats. An autonomous Croatian *banovina* (territory headed by a leader called a *ban*) headed by Ivan Subašić was established, including most Croatian lands outside of the Bosnia and Herzegovina area. Strong opposition developed among Serbs and there was no time for further negotiations, since Prince Paul's government was deposed on 27 March 1941 and Germany's Adolph Hitler and his allies (Italy, Hungary, Bulgaria) attacked Yugoslavia on 6 April 1941.

## World War II

Yugoslavia was divided up and occupied by Germany and its allies. Serbia was put under the administration of General Milan Nedić who was allowed to organize his own military force for internal peacekeeping purposes. In Serbia the resistance was led by the "Cetniks," the "Yugoslav army in the homeland." The Cetniks recognized the authority of the Yugoslav government-in-exile, which, in fact, promoted Draža Mihajlović to general and appointed him its Minister of War. In the fall of 1941 Mihajlović and Josip Broz Tito, who led the Communist partisan movement, met to seek agreement on a common front against the Nazis. However, Mihajlović saw that Tito's goal was to conquer Yugoslavia for Communism. Mihajlović could not go along with this, nor could he accept Tito's request that he subordinate his command to Tito.

A civil war between the two movements (under foreign occupation) followed. Meanwhile, large numbers of Serbs fled Croatia, either to join the partisans or to seek refuge in the Dalmatian areas under Italian control. British leader Winston Churchill, convinced by reports that Mihajlović was collaborating with the Germans while Marshal Tito's partisans were against the Germans, decided to recognize Tito as the legitimate Yugoslav resistance. Though aware of Tito's Communist allegiance to Stalin, Churchill threw his support to Tito.

When Soviet armies, accompanied by Tito, entered Yugoslavia from Romania and Bulgaria in the fall of 1944, military units and civilians that had opposed the partisans had no choice but to retreat to Austria or Italy. After the end of the war, the Communist-led forces took control of Serbia and Yugoslavia and instituted a violent dictatorship that committed systematic crimes and human rights violations. Thousands upon thousands of their former opponents who were returned from Austria by British military authorities were tortured and massacred by partisan executioners. General Mihajlović was captured in Bosnia in March 1946 and publicly tried and executed on 17 July 1946.

### Communist Yugoslavia

Such was the background for the formation of the second Yugoslavia as a Federative People's Republic of five nations (Slovenes, Croats, Serbs, Macedonians, Montenegrins) with their individual republics and Bosnia and Herzegovina as a buffer area with its mix of Serb, Muslim, and Croat populations. The problem of large Hungarian and Muslim Albanian populations in Serbia was solved by creating for them the autonomous region of Vojvodina (Hungarian minority) and Kosovo (Muslim Albanian majority) that assured their political and cultural development.

Tito attempted a balancing act to satisfy most of the nationality issues that were carried over, unresolved, from the first Yugoslavia. However, he failed to satisfy anyone. The numerically stronger Serbs had lost the Macedonian area they considered Southern Serbia; lost the opportunity to incorporate Montenegro into Serbia; lost direct control over the Hungarian minority in Vojvodina and Muslim Albanians of Kosovo (viewed as the cradle of the Serbian nation since the Middle Ages); were not able to incorporate into Serbia the large Serbian-populated areas of Bosnia; and had not obtained an autonomous region for the large minority Serbian population within the Croatian Republic. The official position of the Marxist Yugoslav regime was that national rivalries and conflicting interests would gradually diminish through their sublimation into a new Socialist order. Without capitalism, nationalism was supposed to wither away. Therefore, in the name of their unity and brotherhood motto, any nationalistic expression of concern was prohibited.

After a short post-war coalition government, the elections of 11 November 1945—boycotted by the non-Communist coalition parties—gave the Communist-led People's Front 90% of the vote. A Constituent Assembly met on 29 November, abolished the monarchy and established the Federative People's Republic of Yugoslavia. In January 1946, a new constitution was adopted based on the 1936 Soviet constitution.

Yugoslavia was expelled from the Soviet-dominated Cominform Group in 1948, and was forced to find its own road to Socialism, balancing its position between the North Atlantic Treaty Organization (NATO) alliance and the Soviet bloc. Tito quickly nationalized the economy through a policy of forced industrialization, supported by the collectivization of the agriculture.

The agricultural reform of 1945–46 included limited private ownership of a maximum of 35 hectares (85 acres) and a limited free market (after the initial forced delivery of quotas to the state at very low prices) but had to be abandoned because of resistance by the peasants. Collectivization was initiated in 1949 but had to

be abandoned by 1958 because its inefficiency and low productivity could not support the concentrated effort of industrial development.

By the 1950s, Yugoslavia had initiated the development of its internal trademark: self-management of enterprises through workers councils and local decision-making. Following the failure of the first five-year plan (1947–51), the second five-year plan (1957–61) was completed in four years by relying on the well-established self-management system. Economic targets were set from the local to the republic level and then coordinated by a federal planning institute to meet an overall national economic strategy. This system supported a period of very rapid industrial growth in the 1950s. But public subsidies, cheap credit, and other artificial measures led to a serious crisis by 1961, leading to the introduction of market socialism in 1965. Laws abolished most price controls and halved import duties while withdrawing export subsidies. Councils were given more decision-making power on investing their earnings, and they also tended to vote for higher salaries to meet steep increases in the cost of living. Unemployment grew rapidly even though political factories were still subsidized. The government responded by relaxing restrictions on labor migration particularly to West Germany, encouraging up to 49% foreign investment in joint enterprises, and removing barriers to the exchange of ideas.

Yugoslavia began to develop a foreign policy independent of the Soviet Union. In October 1949, Yugoslavia was elected to one of the nonpermanent seats on the UN Security Council and openly condemned North Korea's aggression in South Korea. Tito intensified his commitment to the movement of nonaligned "third world" nations in cooperation with Jawaharlal Nehru of India, Gamal Abdel-Nasser of Egypt, and others.

With the September 1961 Belgrade summit conference of nonaligned nations, Tito became the recognized leader of the movement. The nonaligned position served Tito's Yugoslavia well by allowing Tito to draw on economic and political support from the Western powers while neutralizing any aggression from the Soviet bloc. Tito condemned all Soviet aggression. Just before his death on 4 May 1980, Tito condemned the Soviet invasion of Afghanistan. In the 1970s and 1980s, Yugoslavia maintained fairly good relations with its neighboring states by playing down or solving pending disputes and developing cooperative projects and increased trade.

As an integral part of the Yugoslav federation, Serbia naturally was impacted by Yugoslavia's internal and external political developments. The main problem facing communist Yugoslavia was the force of nationalism.

As nationalism was on the rise in Yugoslavia, particularly in Croatia and Slovenia, Serbs were facing a real dilemma with the rising of Albanian nationalism in Kosovo. After World War II, Tito had set up Kosovo as an autonomous province and the Albanians were able to develop their own political and cultural autonomy, including a university with instructors and textbooks from Albania. Immigration from Albania also increased and after Tito's death in 1980, Albanians became more assertive and began agitating for a republic of their own, since by then they comprised about 80% of Kosovo's population.

The reverberations of the Kosovo events were very serious throughout Yugoslavia since most non-Serbs viewed the repression of the Albanians as a possible precedent for the use of force elsewhere. Serbs were accused of using a double standard—one for themselves in the defense of Serbs in Kosovo by denying the Albanians' political autonomy and violating their human rights, and a different standard for themselves by demanding political autonomy and human rights for Serbs in Croatia.

In 1986, the Serbian Academy of Arts and Sciences issued a draft manifesto that called for the creation of a unified Serbia whereby all lands inhabited by Serbs would be united with Serbia while bringing Kosovo under control to be eventually

repopulated by Serbs. To accomplish this goal, the 1974 constitution would need to be amended into an instrument for a recentralizing effort of both the government and the economy.

### Recentralization vs. Confederation

In 1986, work was begun on amendments to the 1974 constitution that, when submitted in 1987, created a furor, particularly in Slovenia and Croatia. The main points of contention were the creation of a unified legal system, the establishment of central control over the means of transportation and communication, the centralization of the economy into a unified market, and the granting of more control to Serbia over its autonomous provinces of Kosovo and Vojvodina. These moves were all viewed as coming at the expense of the individual republics. Serbia also proposed replacing the bicameral federal Skupština (assembly) with a tricameral one where deputies would no longer be elected by their republican assemblies but through a "one person, one vote" nationwide system. Slovenia, Croatia, and Bosnia and Herzegovina strongly opposed the change, just as they opposed the additional Chamber of Associated Labor that would have increased the federal role in the economy.

Meanwhile, Slobodan Milošević had become the head of the Communist Party in Serbia in early 1987. An ardent advocate of the Serbs in Kosovo (and elsewhere) and a vocal proponent of the recentralizing constitutional amendments, he was able to take control of the leadership in Montenegro and Vojvodina and impose Serbian control over Kosovo.

The Slovenian Communist Party had taken the leadership in opposing the recentralizing initiatives and in advocating a confederate reorganization of Yugoslavia. Thus a political dueling took place between Slovenia and Serbia. Slobodan Milošević directed the organization of mass demonstrations by Serbs in Ljubljana, the capital city of Slovenia. Serbs began a boycott of Slovenian products, withdrew savings from Slovenian banks, and terminated economic cooperation and trade with Slovenia. The tensions with Serbia convinced the Slovenian leadership of the need to undertake protective measures and, in September 1989, draft amendments to the constitution of Slovenia were published that included the right to secession, the sole right of the Slovenian legislature to introduce martial law, and the right to control deployment of armed forces in Slovenia. The latter seemed particularly necessary since the Yugoslav Army was largely controlled by a Serbian and Montenegrin officer corps.

A last attempt at salvaging Yugoslavia was made when the League of Communists of Yugoslavia convened in January 1990 to review proposed reforms. The Slovenian delegation walked out on 23 January 1990 when their attempts to broaden the reforms was rebuffed.

### Yugoslavia's Dissolution

In October 1990, Slovenia and Croatia published a joint proposal for a confederation of Yugoslavia as a last attempt at a negotiated solution, but to no avail. The Slovenian legislature also adopted a draft constitution proclaiming that "Slovenia will become an independent state . . ." On 23 December, a plebiscite was held on Slovenia's secession from Yugoslavia if a confederate solution could not be negotiated within a six-month period. An overwhelming majority of 88.5% of voters approved the secession provision, and on 26 December 1990 a Declaration of Sovereignty was also adopted. All federal laws were declared void in Slovenia as of 20 February 1991 and, since no negotiated agreement was possible, Slovenia declared its independence on 25 June 1991.

On 27 June, the Yugoslav army tried to seize control of Slovenia under the pretext that it was its constitutional duty to assure the integrity of Socialist Yugoslavia. The Slovenian "territorial guards" surrounded Yugoslav army tank units,

isolated them, and engaged in close combat along border checkpoints, and the Yugoslav units often surrendered. Over 3,200 Yugoslav army soldiers surrendered, and the Slovenes scored an international public relations coup by having the prisoners call their parents all over Yugoslavia to come to Slovenia and take their sons back home. The European Community negotiated a ceasefire after ten days, with a three-month moratorium of Slovenia's implementation of independence.

The collapse of Communist regimes in Eastern Europe in 1989 had a deep impact in Yugoslavia. Communist leaders there realized that, in order to stay in power, they needed to embrace the goals of nationalistic movements. In Serbia and Montenegro, the Communists won on 9 December 1990 on the basis of their strong Serbian nationalism. In its last years, Yugoslavia became a house divided, prompting the parliament of Slovenia to pass a resolution on 20 February 1991 proposing the division of Yugoslavia into two separate states.

### Suppression of Kosovo and Revolt in Croatia

On 2 July 1990, Albanian members of the Yugoslav legislature declared Kosovo a separate territory within the Yugoslav federation. Three days later, on 5 July 1990, the Serbian parliament countered the Albanian move by suspending the autonomous government of Kosovo. The next month (August 1990), an open Serb insurrection against the Croatian government was initiated apparently with the support of Slobodan Milošević. On 17 March 1991, Milošević declared that Krajina, a region in Croatia, was a Serbian autonomous region. Clashes between the Serbian militia and Croatian police required the use of Yugoslav army units to keep the peace.

The Serbian determination to maintain a united Yugoslavia hardened, while the determination of the Slovenes and Croats to gain their independence grew stronger. This caused the closing of ranks by the Yugoslav army command in support of the Serbian leadership and Slobodan Milošević. Since there was no substantial Serbian population in Slovenia, its secession did not present a real problem to Milošević, but secession by Croatia and Bosnia and Herzegovina would necessitate border revisions to allow land with Serbian populations to be joined to Serbia.

The new constitution promulgated by Serbia in September 1990 provided for a unicameral legislature of 250 seats and the elimination of autonomy for Vojvodina and Kosovo. The first elections were held on 9 December 1990. More than 50 parties and 32 presidential candidates participated. Slobodan Milošević's Socialist Party of Serbia received two-thirds of the votes and 194 out of the 250 seats. The Movement for Renewal, headed by Vuk Drašković, received 19 seats while the Democratic Party won 7 seats. With the mandate from two-thirds of the electorate, Slobodan Milošević had complete control of Serbia. Having gained control of Serbia, Montenegro, Kosovo, and Vojvodina, Milošević controlled four of the eight votes in the collective presidency of Yugoslavia. With the collective presidency stalemated, the top army leadership became more independent of the normal civilian controls and was able to make its own political decisions on rendering support to the Serbs in Croatia and their armed rebellion.

On 3 June 1991 Bosnia and Herzegovina and Macedonia proposed the formation of a Community of Yugoslav Republics as a compromise. In this community, national defense, foreign policy, and a common market would be centrally administered while all other areas would fall to the jurisdiction of the member states (except for the armed forces and diplomatic representation). But it was already too late. Serbia disliked the confederate nature of the proposal and objected to leaving an opening for the establishment of separate armed forces. In addition, Milošević and the army had already committed to the support of the revolt of the Serbs in Croatia. At their meeting in

Split on 12 June 1991, Milošević and Croatia's president Tudjman were past the stage of salvaging Yugoslavia when discussing how to divide Bosnia and Herzegovina into ethnic cantons.

The international community stood firmly in support of the preservation of Yugoslavia, of the economic reforms initiated by the Marković government, and of the peaceful solution to the centralist vs. confederate conflict. The United States and the European Community had indicated that they would not recognize the independence of Slovenia and Croatia if they unilaterally seceded from the Yugoslav Federation. With the then-Soviet Union also supporting Socialist Federal Yugoslavia, Milošević was assured of strong international backing. Slovenia and Croatia proceeded with their declarations of independence on 25 June 1991.

As a shrewd politician, Slobodan Milošević knew that a military attack on a member republic would deal a mortal blow to both the idea and the reality of a Yugoslavia in any form. Thus, following the Yugoslav army's attack on Slovenia on 27 June 1991, Milošević and the Serbian leadership concentrated on the goal of uniting all Serbian lands to Serbia.

This position led to the direct use of the Yugoslav army and its superior capabilities in establishing the Serbian autonomous region of Krajina in Croatia. Increased fighting from July 1991 caused tremendous destruction of entire cities (Vukovar), and large scale damage to the medieval city of Dubrovnik. Croatia, which was poorly armed and caught by surprise, fought over a seven-month period. It suffered some 10,000 dead, 30,000 wounded, over 14,000 missing, and lost to the Krajina Serbs (and to the Yugoslav Army) about one-third of its territory, from Slavonia to the west and around the border with Bosnia and south to northern Dalmatia.

The intervention of the European Community (as earlier in the case of Slovenia) and the UN brought about a ceasefire on 3 January 1992. UN peacekeepers were stationed by March 1991 to separate the Serb-controlled areas from Croatian army and paramilitary forces. Milošević had very good reasons to press the Krajina Serbs and the Yugoslav army to accept the ceasefire because the Serb forces had already achieved control of about one-third of Croatian territory. He was confident that the UN forces would actually protect the Serb-occupied territories from the Croats.

### Aggression in Bosnia and Herzegovina

In the meantime, a far worse situation was developing in Bosnia and Herzegovina. Following the deployment in Croatia of UN peacekeepers, the Yugoslav army moved into Bosnia and Herzegovina. Bosnia and Herzegovina held a referendum on independence in February 1992 in accordance with the European Community's conditions for eventual international recognition. In 1991, Bosnia and Herzegovina was about 44% Muslim, 31% Serbian, 17% Croatian, and 6% Yugoslav. Milošević's goal of unifying all Serbian lands would become impossible with an independent Bosnia and Herzegovina. Therefore, Bosnian Serbs abstained from voting, while 64% of eligible voters approved of an independent Bosnia and Herzegovina by an almost unanimous 99.7%.

At the same time, a provisional agreement had been reached at a conference in Lisbon in late February 1992 on dividing Bosnia and Herzegovina into three ethnic units, with related central power sharing. This agreement was rejected by the Muslim side, and the Bosnian Serbs, who had earlier organized their territory into the Serbian Republic of Bosnia and Herzegovina, prepared for hostilities with the support of the Yugoslav army and volunteers from Serbia and Montenegro.

International recognition of Bosnia and Herzegovina came on 6 April 1992, the anniversary of the 1941 Nazi invasion of Yugoslavia. The fear of another genocidal orgy against Serbs

stealed the Serbs' determination to fight for their own survival. On 1 March 1992 a Serbian wedding party was attacked in the Muslim section of Sarajevo. This was the spark that ignited the fighting in Bosnia and Herzegovina. Serbs pounded Sarajevo for two years, reducing it to rubble. They took control of two-thirds of the territory, and carried out ferocious "ethnic cleansing" of Muslims in areas they intended to add to their own. Under international pressure, the Yugoslav army moved to Serbia, leaving to the Bosnian Serbs an abundance of weaponry and supplies.

Serbia and Montenegro formed their own Federal Republic of Yugoslavia on 27 April 1992. Despite the lack of international support, Milošević was elected president of Serbia in December with 56% versus 34% for his opponent, Milan Panić. Inflation, unemployment, and savage corruption convinced Milošević to support the various plans for bringing about peace to Bosnia and Herzegovina. Even with the eventual settlement of hostilities in Bosnia and Herzegovina, Serbia faced serious internal political problems in addition to its ruined economy: the tradition of independence in Montenegro, the Albanian majority in Kosovo, the Muslims of the Sandžak area, the Hungarians in Vojvodina, and independent Macedonia.

### Montenegro

Montenegro is the other constituent member of Serbia and Montenegro. Montenegro's early history is as part of the medieval development of Serbia, known as Duklja or Zeta, north of Lake Scutari (Skadar). Montenegro became completely surrounded by the Turks and subjected to continuous fighting for 400 years, from the mid-1400s to the mid-1800s. Living in a very harsh mountain territory, the Montenegrins were natural and fierce fighters, and not even the large Turkish armies could conquer them. Until 1851, Montenegro was ruled by bishops. The bishops' role strengthened the Montenegrins' loyalty to the Orthodox Church and prevented their conversion to Islam, except in the lowlands and coastal areas occupied by the Turks. In 1696, Danilo Petrović Njegoš (1696–1737) was elected "Vladika" (bishop), and his dynastic family ruled Montenegro until its unification with Serbia into the first Yugoslavia.

The Montenegro area was an almost impregnable mountain fortress with some limited access from the Adriatic coast where the Turks had taken hold. In 1714 the Turks were able to occupy the capital of Cetinje, but they could not sustain their hold because of difficulties in getting supplies and constant guerrilla attacks by the Montenegrins.

Meanwhile, Peter the Great of Russia had recognized Montenegro's independence in 1715, viewing it as an allied Orthodox country valuable in his struggle against the Ottoman Empire. Having gained a greatly supportive ally in Russia, Danilo was successful in opposing the Turks with occasional support from Venice until his death in 1737. His successors had to struggle with the blood feuds among key Montenegrin families. Peter I (1782–1830) was able to bring together the feuding factions, reorganize his administration, issue the first Montenegrin Code of Laws in 1798, and defeat the Turks in 1799. Peter also obtained from the Turks a formal recognition of Montenegro's independence. During the Napoleonic wars, Montenegro, Russia's ally, fought the French over Dubrovnik and, in 1806, occupied the Gulf of Kotor, thus gaining access to the Adriatic sea. But Montenegro had to relinquish Kotor to Austria following the Congress of Vienna decisions in 1814–15.

Peter I died in 1830, having repelled again Turkish attacks in 1819–21 and 1828–29. Peter II, considered by many to be the greatest Serbian poet, established a senate of 12 members and centralized his authority by abolishing the office of civil governor, which had existed since 1516. However, his successor, Danilo II (1851–60), effected a radical change by proclaiming himself an hereditary prince in 1852. Danilo II introduced a new legal code



in 1855 that guaranteed civil and religious freedoms based on the constitution of 1852. Danilo died in 1860 of a wound inflicted by an exiled Montenegrin rebel.

Danilo's nephew Nicholas took over as the last independent ruler of Montenegro from 1860 until the 1918 unification with Serbia and the first Yugoslavia. During his 58-year reign Nicholas gained the nickname of "Father-in-Law of Europe" by marrying six daughters into Italian, Russian, Serbian, and German royal families. Through a series of wars with Turkey (1862, 1876, 1912, and 1913), Nicholas succeeded in more than doubling Montenegro's territory. Following the 1913 Balkan War, Montenegro and Serbia divided the Sandžak area and became neighbor states, both primarily populated by Serbs. Montenegro also gained access to the Adriatic Sea south of Lake Scutari (Skadar), which was divided in 1913 between Montenegro and the newly formed Albanian state.

Between 1880 and 1912, Montenegro took advantage of an era of relative peace to develop roads, education, agriculture, postal services, and banks, mostly with foreign investment especially from Italy, whose queen was Nicholas's daughter Elena.

The first Montenegrin parliament met in 1905, with 62 elected and 14 *ex officio* members. Following the successful Balkan wars, Serbian-Montenegrin relations grew closer, and by 1914, the two Serbian kingdoms proposed a union in which they would share their armed forces, foreign policy, and customs while maintaining their separate royal dynasties. World War I (1913–18) interrupted this process. Montenegro's poor defense led to Austrian occupation for the better part of the war; thus Montenegro ceased to officially participate in the war.

A Montenegrin Committee for National Union was formed by exiles in Paris who supported the 20 July 1917 Corfu Declaration on the establishment of a Kingdom of Serbs, Croats, and Slovenes. The Montenegrin Committee felt the time had come to unite with the Kingdom of Serbs, Croats, and Slovenes. King Nicholas opposed such a move and was deposed. On 24 November 1918, a resolution was passed in favor of Montenegro's union with the Kingdom of Serbia. Thus, Montenegro became part of the first Yugoslavia on 1 December 1918. Montenegrins participated very actively in political life, mostly supporting the centralist Serbian positions.

During World War II (1939–45), Italy controlled Montenegro and attempted unsuccessfully to revive the old kingdom. In the post-World War II Socialist Federative Yugoslavia, Tito reestablished Montenegro as a separate republic due to strong Montenegrin representation in the circle of his closest collaborators. Most Montenegrins took the side of the Serbian centralists against the liberal elements in the League of Communists and, in the late 1980s and early 1990s, supported Slobodan Milošević. With the demise of Yugoslavia, Montenegro joined Serbia in forming the Federal Republic of Yugoslavia, which, in 2003, became Serbia and Montenegro.

In the early 21st century, a new conflict was emerging between Montenegro and Serbia. The Montenegrin government demanded sovereignty, and some Serbian officials claimed that they would actually allow the republic to break away.

On 14 March 2002, under mediation by the European Union, Serbia and Montenegro agreed to form a new federal union, called Serbia and Montenegro. Montenegro's president, Milo Djukanovic, was reluctant to sign the agreement, being the leader of the drive for independence of Montenegro's population of 660,000.

### Kosovo and Vojvodina

Kosovo was the center of the Serbian kingdom in the Middle Ages. Firmly attached to their Christian faith and opposed to conversion into Islam, large numbers of Serbs were forced to leave the Kosovo region because of Turkish persecutions. In their place Muslim Albanians were settled in increasing numbers so that liberation of Serbian Kosovo in 1912 actually liberated an almost entirely Albanian area. By the end of World War II, the Kosovo area was already about 70% Albanian. Tito granted Kosovo a special autonomous status, keeping Serbian hopes alive that eventually Serbs could repopulate Kosovo.

The Albanians clamored for their right to self-determination and a republic of their own (still within Yugoslavia). Albanians increased their pressure on the remaining Serbian population, which had dwindled to some 10% of the total by 1991. Cries of genocide were raised by Serbian media, and a series of bloody clashes justified Slobodan Milošević's administration to develop a new Serbian constitution of September 1990, drastically limiting Kosovo's autonomy. Albanians then organized their own political parties, the strongest of which became the Kosovo Democratic Alliance led by Ibrahim Rugova.

In a street meeting on 2 July 1990, the adjourned Kosovo Assembly adopted a declaration proclaiming Kosovo a separate republican entity. Serbs reacted by suspending the Kosovo Assembly on 5 July 1990. Most of the Albanian delegates had to flee the country to avoid imprisonment.

Serbia found itself in a very peculiar and dangerous situation. Through several past centuries the Serbian people expanded their reach by forced mass migrations and wars that have contributed to the depopulation of its own cradle area—Kosovo. The Serbian claims to these lands were being contested by neighboring states or other older populations. Serbia and Montenegro became isolated and were facing adversary states.

### The Ongoing Conflict

The quest to create a "Greater Serbia"—that is, to unite the Serbs under a single Serbian government—resulted in continued fighting, particularly in Bosnia and Herzegovina. Over 8,000 Bosnian Muslim men and boys were summarily executed at Srebrenica in July 1995. On 8 September 1995, the leaders of Serbia, Croatia, and Bosnia and Herzegovina agreed on a new governmental structure for Bosnia and Herzegovina; the three parties soon afterwards refined their agreement to include a group presidency, a parliament, and a constitutional court in which Bosnia and Herzegovina and Croatia would share power with the Serbian republic.

In October 1995, Bosnia and Herzegovina accused the Bosnian Serbs of war crimes, leading to international suspicion that Serbian soldiers had massacred thousands of Muslims. Pressured by air strikes and diplomacy, Serb authorities joined leaders from Bosnia and Herzegovina and Croatia on 31 October 1995 in Dayton, Ohio, for a round of peace talks sponsored by the United States. On 21 November 1995, the three presidents of Bosnia and Herzegovina, Croatia, and Serbia finally agreed to terms that would end the fighting in Bosnia and Herzegovina after four years and an estimated 250,000 casualties. The agreement was formally signed in Paris in mid-December and called for 60,000 UN peacekeepers. The United States then ended its economic sanctions against Serbia.

Enforcement of the peace was difficult, and problems arose over the exchange of prisoners. The United States ordered the leaders of the former warring parties to meet in Rome in February 1996 to recommit themselves to the Dayton agreement. Meanwhile, the International Criminal Tribunal for the former Yugoslavia at The Hague set out to find and prosecute Serbian soldiers accused of atrocities. In March 1996, the UN Tribunal filed its first charges. Among those cited were Serb generals

Djordje Djukic and Ratko Mladic, and Bosnian Serb leader Radovan Karadzic. The latter two remained at large, spurring accusations by the United States and Europe that the Serbian government was protecting the international outlaws. In May 1996, Serbian President Milošević pledged that Karadzic would be removed from power. The presidents of Serbia, Croatia, and Bosnia and Herzegovina agreed to hold Bosnian elections in mid-September 1996.

While international suspicion swirled about him for his role in the Bosnian conflict, Serbian President Milošević was not very successful in delivering promised reforms for Serbia. In March 1996, a demonstration in Belgrade brought out 20,000 protestors against the Milošević regime, which opponents charged with starting the Bosnian conflict and devastating the Serbian economy.

Mass demonstrations against Milošević flared later in 1996 when he voided local elections won by the opposition. In December, the Milošević administration shut down Belgrade's independent radio station, which further alienated Serb citizens. Thousands of protesters met in the streets of Belgrade, hoping to topple the Milošević administration. In February 1997, Milošević relented and agreed to recognize the results of the previous local elections, in which opposition parties won majorities in 14 of Serbia's 19 largest cities. In July 1997, Milošević was appointed to the presidency of Yugoslavia by the federal parliament, allowing him to maintain control for another four years.

During early March of 1999, Albanian moderates led by Ibrahim Rugova (president of the self-proclaimed Republic of Kosovo) and representatives of the Yugoslav government held talks in Rambouillet, France; they came up with a plan to give Kosovo back its autonomy under a three-year NATO occupational guarantee. The Serbs refused to sign the accord, and Yugoslav forces grew to 40,000 in Kosovo, continuing hostilities. Beginning 24 March 1999 NATO forces bombed Serbia and Kosovo, in an attempt to check human rights violations and end fighting. NATO bombs and cruise missiles fell on military targets in Belgrade and Pristina. Fears ran high that other European nations would get involved in the conflict and take sides, resulting in a third world war. Russia disagreed with the NATO bombing runs, attempting its own peace process. After 11 weeks of bombing, casualties reported by the Yugoslav government amounted to 462 soldiers and 114 police officers, but NATO estimates claimed 5,000 had died including 2,000 civilians. On 3 June, the Yugoslav government accepted a peace plan that involved removing Yugoslav troops from Kosovo, and giving some autonomy to the province. NATO troops entered Kosovo on 12 June to enforce the peace plan. Some 170,000 Kosovar Serbs were thrown out of Kosovo by the ethnic Albanian majority during the conflict, adding to an already large refugee population.

Milošević banned international observers from the process of monitoring the 24 September elections. The opposition to Milošević was strong, and a crowd of 150,000 turned out for the final pre-election rally against him. The opposition claimed victory in the election, with Vojislav Kostunica proclaiming himself the "people's president." The Federal Election Commission called for a second vote, stating that neither candidate had won an outright majority; this plan was met with world-wide opposition. On 27 September, 250,000 people took to the streets to demand that Milošević step down. On 28 September, the Electoral Commission announced that while the Democratic Opposition group had won the largest single block of seats, the Socialists and their coalition partners had won an absolute majority. By 2 October, protesters had called a general strike, were blocking Belgrade's main streets and had caused a halt to economic activity in other Yugoslav cities. On 4 October, the Constitutional Court annulled the election results and ruled that Milošević should serve out his last term in office. Tens of

thousands of opposition supporters stormed and burned the parliament building on 5 October and captured the state television service; police joined the crowds. Kostunica told approximately 500,000 supporters at a rally in Belgrade that Serbia had been liberated. On 6 October, Milošević conceded defeat, and Kostunica was sworn in as president on 7 October. He stated his first objective as president would be to right the economy and lead reconstruction efforts. Milošević was indicted for atrocities in Kosovo by the UN war crimes tribunal in The Hague. A bounty of US\$5 million was offered by the US government to find the war criminal, but he remained in power even after losing the war. On 29 June 1999, 10,000 Serbian protestors gathered in Cacak, in northern Serbia, to demand the resignation of Milošević. In August, more than 100,000 Serbians called for an end to his rule in a march on Belgrade. The UN began the unwieldy task of reconciliation in the region during the fall of 1999. Kosovo was to remain under the sovereignty of Yugoslavia as a Serbian province, but with some future determination of further self-government (scheduled to follow the fall of the Milošević regime). The next regular presidential elections were set for 2001. Sweeping constitutional changes in July 2000 changed the presidential term so that Milošević could run for two additional four-year terms. They also made the weight of the Montenegrin vote in the Yugoslav parliament equal to its population, or only 7%. Milošević called presidential elections early, for 24 September 2000; most believed that they would be rigged in his favor, and were planning to boycott the elections.

The European Union (EU) and United States lifted their economic sanctions against Yugoslavia, and in November the country rejoined the UN; Kostunica indicated the country wanted to join the EU as soon as possible. In January 2001, Yugoslavia and Albania reestablished diplomatic relations after they had been broken off during the crisis in Kosovo in 1999.

On 1 April 2001, Milošević was arrested at his home in Belgrade after a tense standoff in which shots were fired; he had been charged with corruption and abuse of power within Yugoslavia. Kostunica had originally ruled out extraditing Milošević to the war crimes tribunal at The Hague. Milošević was formerly indicted by the tribunal in May 1999 for alleged war crimes in Kosovo; other indictments later included war crimes carried out in Bosnia and Herzegovina and Croatia, including charges of genocide carried out in Bosnia and Herzegovina from 1992–95. This was the first time a sitting head of state had been charged with war crimes. In May, US president George W. Bush called on Yugoslavia to hand Milošević over to the war crimes tribunal, saying US aid to the country was dependent upon such action. In June, then-Serbian prime minister Zoran Djindjic authorized the extradition of Milošević to the tribunal, exacerbating a rift between him and Kostunica, who favored a trial for Milošević in Belgrade. Milošević's trial at The Hague began in February 2002.

On 14 March 2002, in an agreement mediated by the EU, Serbia and Montenegro agreed to consign the Yugoslav Republic to history and create a loose federation called "Serbia and Montenegro." Both republics would share defense and foreign policies, but would maintain separate economies, currencies (the dinar for Serbia and the euro for Montenegro), and customs services for the immediate future. Each republic would have its own parliament with a central 126-member parliament located in Belgrade. Montenegrin president Milo Djukanovic reluctantly agreed to the union, committing Montenegro to a three-year moratorium on an independence referendum, but in April, the Montenegrin government collapsed over differences on the new union. Kosovo, which remained under UN administration, would remain part of Serbia. This angered many Kosovo activists, although the agreement looked to some as possibly accelerating the process of independence for the province. The parliament of

the Federal Republic of Yugoslavia voted to disband itself on 4 February 2003, dissolving the country and introducing the new state of Serbia and Montenegro. Both republics can hold referendums on full independence in 2006.

Serbian presidential elections were held on 29 September 2002, with 55.5% of registered voters casting ballots. Kostunica won 30.9% of the vote, and his opponent Miroslav Labus finished second with 27.4%. The second round of voting was held two weeks later, with Kostunica winning 66.8% of the votes, to 30.9% for Labus. However, voter turnout failed to reach a mandated 50% (it was 45.5%), and the elections were declared to be invalid. Nataša Micić, formerly the speaker of parliament, became acting president. She stated Serbian presidential elections would be held after the adoption of the new Serbian constitution, after it was harmonized with the constitution of Serbia and Montenegro. Montenegrin general elections were held in October 2002, and in November, Djukanović resigned as president to take on the job of prime minister. Presidential elections held in Montenegro in December 2002 and February 2003 were invalidated due to low voter turnout. A new elections law does not stipulate the requirement of 50% voter turnout for successful elections, and Montenegrin presidential elections were scheduled for 11 May 2003.

On 7 March 2003, Svetozar Marović, deputy leader of the Montenegrin Democratic Party of Socialists, was elected the first president of Serbia and Montenegro after Kostunica stepped down as president of the former Yugoslavia.

On 12 March, Serbian prime minister Zoran Djindjić was assassinated outside the main government building in Belgrade. Members of criminal organizations were suspected of carrying out the assassination; Djindjić had declared war on organized crime in Serbia, which was said to flourish under Milošević. After the assassination, Serbia was placed under a state of emergency, and police arrested some 1,000 people, including members of Serbia's secret service and policemen. Zoran Živković, a leading official of the ruling Democratic Party, was elected prime minister to replace Djindjić.

### 13 GOVERNMENT

Serbia and Montenegro is a confederal parliamentary democratic republic, with two constituent states—the Republic of Serbia and the Republic of Montenegro. As of April 2003, the Serbian province of Kosovo remained governed by the UN Interim Administration Mission in Kosovo (UNMIK), and has self-government. The Serbian province of Vojvodina is nominally autonomous. A constitutional charter for the state was ratified by both the Serbian and Montenegrin parliaments in January 2003, and the constitution for the unified state was approved on 4 February 2003. The constitution allows the member republics to hold independence referendums in 2006.

The president is head of state. He or she is elected by parliament for a four-year term, nominates the members of the Council of Ministers and oversees their work. The Council of Ministers has five departments: foreign affairs, defense, international economic relations, internal economic relations, and the protection of human and minority rights.

The unicameral Assembly of Serbia and Montenegro has 126 members elected for four-year terms, with 91 members from Serbia and 35 from Montenegro. The prime minister is head of government and is appointed by the president.

### 14 POLITICAL PARTIES

In the first parliamentary elections held on 25 February 2003, seats in the 126-member Assembly were distributed as follows: Democratic Opposition of Serbia, 37; Democratic List for European Montenegro, 19; Democratic Party of Serbia, 17; Together for Changes (Montenegro), 14; Serb Socialist Party, 12; Serb Radical Party, 8; Social Democratic Party, 5; Party of Serb

Unity, 5; Christian-Democratic Party of Serbia, 2; Democratic Alternative (Serbia), 2; Group Serbia, 1; New Serbia, 1; Liberal Alliance of Montenegro, 1; and Albanians Together, 1. Of the 126 members of parliament, 9 were women.

On 7 March 2003, Svetozar Marović of the Democratic Party of Socialists of Montenegro was elected the first president of Serbia and Montenegro.

### 15 LOCAL GOVERNMENT

Serbia and Montenegro is composed of two republics (Serbia and Montenegro) and two autonomous provinces (Kosovo and Vojvodina).

### 16 JUDICIAL SYSTEM

The Federal Court of Serbia and Montenegro has an equal number of judges from each member state. The judges are appointed by the Assembly for nonrenewable six-year terms. The judges must be law graduates with at least 15 years of legal practice behind them. The court has constitutional and administrative functions.

### 17 ARMED FORCES

Active armed forces numbered approximately 74,500 in 2002, supported by some 400,000 reservists. The army of 60,000 was equipped with more than 1,000 main battle tanks and 557 armored infantry fighting vehicles. There was a navy with 3,500 personnel, including 900 marines. The navy manned four submarines, three frigates, 31 patrol and coastal combatants, and 10 other craft. The air force of 11,000 had 103 combat aircraft and 44 armed helicopters. The paramilitary consisted of around 40,000 members of an internal security force. There were 34,500 international peacekeeping troops from 30 countries stationed in Yugoslavia as part of the Kosovo Peace Implementation Force. Defense expenditures amounted to \$654 million in 2002.

### 18 INTERNATIONAL COOPERATION

The Socialist Federal Republic of Yugoslavia was an original member of the UN (1945) until its dissolution following the establishment and subsequent admission of Bosnia and Herzegovina, Croatia, Slovenia, the Former Yugoslav Republic of Macedonia, and the Federal Republic of Yugoslavia as new states. The Federal Republic of Yugoslavia was admitted as a UN member on 1 November 2000. Following the adoption and promulgation of the Constitutional Charter of Serbia and Montenegro on 4 February 2003, the name of the Federal Republic of Yugoslavia was changed to Serbia and Montenegro. Serbia and Montenegro is a member of the World Bank, IMF, FAO, IAEA, OSCE, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, WMO, and has applied for admission to the WTO.

### 19 ECONOMY

During the UN economic sanctions that lasted from 1992 to 1995, economic activity was extremely limited. By 1994, hyperinflation had brought formal economic activity to a virtual halt. By 1996, GDP had fallen to only 50.8% of 1990s total. Industry declined to just 46.6% of 1990s output; agriculture, 94.4%; construction, 37.5%; transportation, 29.3%; trade, 60.6%; and services, 81.1%. Formal lifting of these sanctions occurred in October 1996. However, the United States sponsored an "Outer Wall" of sanctions, which prevented Yugoslavia from joining international organizations and financial institutions. Taken together, the "Outer Wall," the Kosovo war, and continuing corruption continue to stifle Yugoslav economic development. In October 2000, the coalition government began implementation of stabilization and market-reform measures. Real growth in 2000 was reported as 5%. A donors' conference in June 2001 raised \$1.3 billion in pledges for help in infrastructural rebuilding. Real GDP in 2001 was 5.5% and an

estimated 4% in 2002. The average lending rate, at 79.6% in 2000 dropped to 33.2% in 2001, reflecting some improvement in economic security. The IMF projected a 4% GDP growth rate for 2002.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Serbia and Montenegro's gross domestic product (GDP) was estimated at \$25.3 billion. The per capita GDP was estimated at \$2,370. The annual growth rate of GDP was estimated at 3.5%. The average inflation rate in 2002 was 18%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. Agriculture accounted for an estimated 26% of GDP, industry 36%, and services 38%.

Worker remittances in 2001 totaled \$1,698 million. Foreign aid receipts amounted to about \$123 per capita and accounted for approximately 12% of the gross national income (GNI). Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings.

## 21 LABOR

The labor force in Serbia and Montenegro was estimated at three million in 2001. The unemployment rate stood at 28% in 2002, with some areas experiencing even higher figures.

With the exception of the military, all workers are entitled to form unions. However, the majority of unions are government sponsored or affiliated: independent unions are rare. Therefore, unions have not been effective in improving work conditions or wage structure increases. Virtually all of the workers in the formal economy are union members. Strikes are permitted and are utilized especially to collect unpaid wages. Collective bargaining is still at rudimentary level.

The minimum employment age is 16 although younger children frequently work on family farms. The monthly minimum wage in 2002 was about \$47. This does not provide a decent living wage for a family. The official workweek is set at 40 hours. Health and safety standards are not a priority due to harsh economic circumstances.

## 22 AGRICULTURE

Yugoslavia (which became Serbia and Montenegro in 2003) had 3,707,000 ha (9,160,000 acres) of arable land in 1998. Serbia historically accounted for 60% of agricultural production. Vojvodina is the major agricultural region. In 1999, 21% of the labor force was engaged in agriculture.

Between 1991 and 1996, total agricultural production declined by 10%. During that time, production of farm crops fell by 9%; cereals by 12%. Viticultural production, however, increased by 51%. However, by 1999, total agricultural output was at 92% of the average during 1989-91.

Agriculture contributed an estimated 18% to GDP in 1999. Major crops produced in 2001 included (in thousands of tons): corn, 5,502; wheat, 2,245; sugar beets, 2,085; potatoes, 992; and grapes, 419.

## 23 ANIMAL HUSBANDRY

In 2001, the livestock population included 3,364,000 pigs and hogs, 1,782,000 sheep, 1,360,000 head of cattle, 239,000 goats, 49,000 horses, and 21,100,000 poultry. Total meat production that year was 1,871,000 tons; milk, 1,759,000 tons. Between 1990 and 1999, total livestock production increased by 1.8%.

## 24 FISHING

The total catch in 2000 was 1,096 tons, 61% from inland waters. Common carp accounts for much of the inland catch.

## 25 FORESTRY

In 2000, estimated forest coverage was 2,887,000 ha (7,134,000 acres). Total roundwood production in 2001 was 2,620,000 cu m (92.5 billion cu ft), of which 77% came from public forests and 23% came from private lands. Sawntwood production amounted to 410,000 cu m (14.5 million cu ft); plywood, 27,000 cu m (953,000 cu ft); particle board, 80,000 cu m (2.8 million cu ft). In 2000, exports of forest products amounted to nearly \$43.9 million; imports, \$159.7 million.

## 26 MINING

In 2000 Serbia and Montenegro was beginning to rebuild infrastructure, electric power stations, steel mills, and other industrial plants damaged in the Kosovo conflict. The country also confronted continuing economic sanctions and the loss of control of Kosovo, with its ores and production facilities for nickel, lead, zinc, coal, lignite, ferronickel, and tin-plate. Serbia and Montenegro's GDP grew by 7% in 2000, its industrial production rose by 12%, and its output of iron and steel, industrial (nonmetallic) minerals, and nonferrous metals recorded increases of 152%, 38%, and 7%, respectively. The country had significant capacities to produce refined aluminum, lead, silver, and zinc. In 2002, raw materials were a leading export commodity, and mining, particularly of coal, bauxite, nonferrous ore, iron ore, and limestone, ranked behind machine building and metallurgy as the country's leading industries. Mining in Serbia dates back to the Middle Ages, when silver, gold, and lead were extracted. Yugoslavia's bauxite mining, alumina-refining, and aluminum-smelting industries were located primarily in Montenegro, which was accorded favorable treatment by the European Commission, and thus registered the only substantial production gains in nonferrous metals as compared with prewar 1998 levels.

Mine output of metals in 2000 was: gross lead ore, 602,000 tons, down from 1.25 million tons in 1998; gross bauxite, 630,000 tons, up from 226,000 in 1998; agglomerate iron ore and concentrate, 2,000 tons, down from 50,000 in 1996; and gross copper ore, 12.9 million tons, down from 20.5 million tons in 1997. Production of silver was 7,645 kg in 2000, down from 68,805 in 1996, and for refined gold, 1,300 kg, down from 4,000 in 1997. The country also produced alumina, magnesium, palladium, platinum, and selenium. Among the industrial minerals produced were asbestos, bentonite, ceramic clay, fire clay, feldspar, pumice, lime, magnesite, mica, kaolin, gypsum, quartz sand, salt, nitrogen, caustic soda, sodium sulfate, sand and gravel, and stone.

## 27 ENERGY AND POWER

Serbia and Montenegro has abundant hydroelectric potential, but there are frequent electrical blackouts and brownouts during the peak winter months. Serbia alone accounted for 40% of the electricity production before Yugoslavia broke apart into five separate republics. Since 1992 energy supplies have been interrupted by UN and US sanctions. Hydroelectric projects are located on the Danube, Drina, Vlasina, and Lim rivers. Thermal plants are located at Kostolac and Kosovo. Total electrical capacity in 2001 was 9.6 million kW. Generation of electricity in 2000 amounted to 40 billion kWh, of which 59% was thermal and 41% hydroelectric. Consumption of electricity in 2000 was 31.5% billion kWh.

Serbia and Montenegro is the only Balkan country with substantial coal deposits. Proven reserves as of 1999 totaled 18.2 billion tons, 95% of which was lignite. The country's largest lignite mine is operated by Kolubara Povrsinski Kopovi near Vreoci, Serbia, and has an annual capacity of 14,000 tons. Natural gas production totaled 850 million cu m (30 billion cu ft)

in 1997. Crude oil production was reported at 18,000 barrels per day.

## 28 INDUSTRY

Serbia contributed 35% to the total industrial production of the former Yugoslav SFR. Between 1989 and 1996, total industrial output fell by 60%. Production declines by sector during that time were as follows: metals and electrical products, 85%; textiles, leather, and rubber products, 75%; wood products, 63%; nonmetals, 56%; and chemicals and paper, 54%. In the mid-1990s, industry accounted for approximately 50% of the country's GDP.

The industrial production growth rate for Yugoslavia in 2000 was 11%, and industry accounted for 36% of GDP in 2001. Principal industries in Serbia and Montenegro include machine building (aircraft, trucks, automobiles, tanks and weapons, electrical equipment, agricultural machinery), metallurgy, textiles, footwear, foodstuffs, appliances, electronics, petroleum products, chemicals, and pharmaceuticals. Serbia produced 8,978 automobiles in 2001, a 30% decline from 2000; it also produced 555 heavy trucks in 2000, a 33% increase over 1999. Under their new, looser federation, the Serbian and Montenegrin economies are distinct, and it remains to be seen how industrial activity will operate under this new union.

## 29 SCIENCE AND TECHNOLOGY

A large communications satellite station was made operational in Ivanica during the 1970s. Scientific and technological policies are developed and implemented by the Federal Ministry of Development, Science and Environment; the Ministry of Science and Technology of the Republic of Serbia; and the Ministry of Education and Science of the Republic of Montenegro. As of 1999, there were an estimated 17,300 scientists engaged in scientific and technological research in Yugoslavia (16,480 in Serbia and 821 in Montenegro). There were 111 registered research institutions in the country (98 in Serbia and 13 in Montenegro) and seven universities.

A nationwide scientific and technological development policy formulated in 1994 created 250 five-year basic research projects in all scientific disciplines.

## 30 DOMESTIC TRADE

Belgrade serves as the economic and commercial center of the country. Pristina and Subotica serve as regional market centers. The domestic economy has been held back for the past few years due the lack of major privatization reforms and trouble in the general European economy. In 2002, inflation was at 18% and unemployment was at about 28%. Hours of business for transportation, communications, banks, shops, hospitals, and services are usually between 7 AM and 3 PM. Occasionally the workday will be split, with a siesta between noon and 4 or 5 PM, when businesses reopen until about 8 PM. Government offices are open from 7 PM until 3:30 PM during the week.

## 31 FOREIGN TRADE

The UN imposed sanctions on international trade with Yugoslavia in May 1992 and lifted them in December 1995. During the war, when sanctions were in force, dozens of Cypriot companies, set up by senior Serbian officials and businessmen, trafficked millions of dollars in illegal trade.

In 2000 Yugoslavia's imports were distributed among the following categories:

Consumer goods	8.8%
Food	7.5%
Fuels	20.1%
Industrial supplies	35.0%
Machinery	12.8%
Transportation	10.1%
Other	5.7%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Bosnia-Herzegovina	254	174	80
Italy	223	390	-167
Macedonia	210	130	80
Germany	177	479	-302
Switzerland	109	92	17
Russia	86	319	-233
Greece	75	132	-57
Hungary	62	123	-61
France	43	89	-46
Austria	42	114	-72

## 32 BALANCE OF PAYMENTS

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Yugoslavia's (now Serbia and Montenegro's) exports was \$2.2 billion while imports totaled \$5.3 billion resulting in a trade deficit of \$3.1 billion.

## 33 BANKING AND SECURITIES

Serbia and Montenegro's banking system is still not functional despite the lifting of international sanctions. The largest commercial banks are unable to make international transfers of funds or issue letters of credit. Foreign assets of Yugoslavian banks remain frozen, because UN sanctions prohibit releasing assets when republics of the former Yugoslav SFR (Slovenia, Croatia, Bosnia and Herzegovina, Macedonia) have competing claims to those assets. Moreover, banks are severely hampered by a lack of liquidity, a result of the tight monetary policy prevalent in Yugoslavia. Although over 100 banks continued to operate at of 1997, about 90% of all banking assets were immobile.

## 34 INSURANCE

Insurance of public transport passengers, motor vehicle insurance, aircraft insurance, and insurance on bank deposits are compulsory. Only domestic insurance companies may provide insurance. The insurance industry is monitored by the Federal Ministry of Finance.

## 35 PUBLIC FINANCE

Information on the government's revenue and expenditures are not available.

## 36 TAXATION

No recent information is available regarding Serbia and Montenegro's tax structure. In Serbia, the republic government, rather than the city governments, collects local taxes and then disperses part of the funds to city officials. Local factories pay no city taxes in Serbia.

## 37 CUSTOMS AND DUTIES

Serbia and Montenegro has officially eliminated trade restrictions on most of its imports and exports. However, many trade restrictions are still practiced. As of 2002, duties included a customs tariff rate (9–30%, average of 9.4%), import tax (1–9%), equalization tax (1–9%), customs evidence fees (1%), a surcharge on some agricultural goods, seasonal import taxes (20%), and excise taxes (5–70%). Non-tariff barriers in the form of import quotas are set up ostensibly to protect native industries, but actually protect monopolies operated by those close to the government. The government selectively issues import and export licenses, creating closed trading clubs that contradict privatization efforts. There is lack of uniformity in trade regulation enforcement.

Serbia has established free trade zones in Smederrepo, Kovin, Nis, Belgrade, Novi Sad, Sabac, Pahovo, Sombor, Sremska Mitrovica, Subotica, and Zrenjanin.

### 38 FOREIGN INVESTMENT

Foreign investment was severely restricted during the years of the economic embargo. Since the sanctions have been lifted, foreign investors from neighboring countries, Russia, and Asia have expressed an interest in capital investment. The main sectors attracting the interest of foreign investors are metal manufacturing and machinery, infrastructure improvement, agriculture and food processing, and chemicals and pharmaceuticals. Foreign investors may hold majority shares in companies.

In 1997, foreign direct investment (FDI) inflows into Serbia and Montenegro reached \$740 million, but dried up with the onset of the conflict in Kosovo. FDI inflows averaged \$122.5 million in 1998 and 1999, then fell to \$25 million in 2000. In 2001, FDI inflow reached \$125 million.

### 39 ECONOMIC DEVELOPMENT

Officials in general see revitalization of the infrastructure (roads, rail and air transport, telecommunications, and power production) as one step toward economic recovery. Another important aspect of economic reconstruction will be the revival of former export industry, such as agriculture, textiles, furniture, pharmaceuticals, and nonferrous metallic ores.

The Kosovo war in 1999 left much of Serbia's infrastructure in ruins, but reconstruction efforts were proceeding slowly in the early 2000s. The new government that came to power in 2000 faced numerous economic challenges. Nevertheless, inflation decreased sharply from 113% at the end of 2000 to 23% in April 2002. Gross domestic product (GDP) rose by 5.5% in 2001. In 2002, the International Monetary Fund (IMF) approved a three-year \$829 million Extended Arrangement to support Serbia and Montenegro's (then Yugoslavia's) 2002–05 economic program. In 2002, the dinar became convertible. Privatization has been slow, and foreign direct investment lagged in the early 2000s.

### 40 SOCIAL DEVELOPMENT

In 1992, the then-Federal Republic of Yugoslavia passed legislation, The Law on Basic Pension and Invalidity Insurance, which became effective in 1997 and still governs the social welfare system. The pension plan is funded by contributions from both employers and employees; the contribution rate varies according to Republic. The retirement age is 60 for men and 55 for women. Each Republic provides its own system for sickness and maternity benefits. Medical services are provided directly to patients through government facilities. Workers' compensation, unemployment benefits, and family allowances are also available.

Traditional gender roles keep women from enjoying equal status with men and few occupy positions of leadership in the private sector. However, women are active in human rights and political organizations. High levels of domestic abuse persist and social pressures prevent women from obtaining protection against abusers.

The government's human rights record remained poor and was additionally marred by the crisis in Kosovo, where police were responsible for beatings, rape, torture, and killings, committed with impunity. The government has refused to cooperate with extradition requests by the international criminal tribunal investigating war crimes. In May 1999, the tribunal indicated Yugoslavian president Slobodan Milosevic and four top military officials for crimes against the citizens of Kosovo.

### 41 HEALTH

The government provides obligatory health care to citizens for preventive, diagnostic, therapeutic, and rehabilitative services.

There were 228 health institutions and about 3,000 other clinics, mostly private. Hospital and clinic beds numbered 56,107 in 1995, for a ratio of 188 persons per bed. As of 1999, there were an estimated 2 physicians and 5.3 hospital beds per 1,000 people. Other medical personnel as of 1995 include 4,100 dentists, 2,260 pharmacists, and 56,770 other medical workers. The University Clinical Center in Belgrade conducts about nine million examinations and 46,000 emergency operations per year and functions as one of the World Health Organization's largest diagnostic and referral centers.

In 1999, infant mortality was reported at 16.5 per 1,000 live births in Serbia and 11 in Montenegro. Overall mortality was 9.7 per 1,000 people in Serbia and 7.4 in Montenegro. Average life expectancy in 1999 was 73.5 for Serbia and 76.3 for Montenegro.

HIV prevalence was 0.1 in 1999; that year, there were 47 cases of tuberculosis per 100,000 people. In 1998 the maternal mortality rate was 10 per 100,000 live births; in 2000 the fertility rate was 1.7.

### 42 HOUSING

At the beginning of 1996, Serbia and Montenegro had 3,124,000 dwellings, with an average of 3.4 persons per dwelling. Housing area at that time averaged 20 sq m (215 sq ft) per person. New housing completions during 1995 totaled 14,337 units, of which 11,847 were in the public sector, and 2,490 were in the private sector. According to a 1999 assessment, it was estimated that about 120,000 dwellings were damaged or destroyed in Kosovo due to internal conflicts. About 50,000 homes had been damaged in Serbia. Overcrowding, particularly in urban areas, has become more of a problem as Serbian refugees have returned from Croatia and Bosnia and Herzegovina.

### 43 EDUCATION

Education is compulsory for eight years, between the ages of seven and 15. Primary school lasts for four years and is followed by two tiers of secondary education, four years at the first level and four more years of upper secondary education at the second level. In 1997, there were 437,780 students enrolled in primary schools and 815,029 students in secondary schools. The pupil-teacher ratio at the primary level was 20 to 1 in 1999. In the same year, 51% of primary-school-age children were enrolled in school.

Serbia has six universities (at Belgrade, Novi Sad, Pristina, Nis, and Kragujevac) with 76 academic departments. Some 172,313 students were enrolled in tertiary academies and schools in 1997; teaching staff totaled 12,273. As of 1999, public expenditure on education was estimated at 4.2% of GDP.

### 44 LIBRARIES AND MUSEUMS

The National Library of Serbia (1.6 million volumes) is in Belgrade. The Central National Library of Montenegro also has 1.6 million volumes. The Matica Srpska Library has 1.2 million volumes, the Serbian Academy of Arts and Sciences in Belgrade has one million, and the library system at the University of Belgrade has 1.45 million volumes.

Serbia has over 2,500 cultural monuments, including about 100 museums and 37 historical archives libraries. The Belgrade National Museum, founded in 1844, includes exhibits featuring national history, archaeology, medieval frescoes, and works by Yugoslavian and other European artists. Belgrade also has ethnographical and historical museums, and the Museum of Science and Technology opened in 1989.

### 45 MEDIA

Serbia and Montenegro had over two million main line telephones in service during 1995 and reports indicate there were 87,000 mobile cellular phones by 1997. In 1998, there were 113

AM and 194 FM radios stations, as well as over 700 television stations (many of which are low-powered, local access). In Serbia and Montenegro, only the RTS network is owned by the state; the other six (BK, TV Studio Spectrum Cacak, Kanal 9 Kragujevac, Pink, Palma, and Art Kanal) are privately owned. The ownership and editorial positions of television and radio stations usually reflects regional politics. Government control over independent broadcasts and the print media has discouraged political opposition parties that have called for greater democracy and a more open economy. In 2000, Serbia and Montenegro had about 297 radios and 282 television sets for every 1,000 people. Nine Internet service providers were serving 400,000 customers in 2001.

In 1791, the first Serbian-language newspaper was published in Vienna, Austria. Privately owned newspapers are sometimes critical of the government. The dailies with the largest circulation (as of 2002) are *Politika* (*Politics*, 300,000) and *Vecernje Novosti* (*Evening News*, 169,000). Other newspapers, that are essentially controlled by the government, include (with 2002 circulation) *Borba* (85,000), *Jedinstvo* (6,090), *Dnevnik* (61,000), and *Pobjeda* (19,400). Over 80 minority language newspapers were printed as of 1995, of which Albanian-language newspapers accounted for 51. Periodical publications numbered 450 at that time, with a circulation of 3.3 million.

#### 46 ORGANIZATIONS

The Matica Srpska was founded in Novi Sad in 1824 as a literary and cultural society. The Serbian Academy of Science and Art was founded in Belgrade in 1886. There are several organizations for professional journalists, including the Journalists' Federation of Yugoslavia, the Journalists' Association of Serbia, Independent Journalists' Association, and the Association of Private Owners of the Media. The Chamber of Economy of Serbia is located in Belgrade.

National youth organizations include the Bureau of International Cooperation of Youth of Serbia, Union of Socialist Youth of Yugoslavia, and the Youth Council of Montenegro. Scouting organizations are also active.

#### 47 TOURISM, TRAVEL, AND RECREATION

In the mid-1990s, Serbia and Montenegro had 250,400 ha (618,500 acres) of national parks, of which 159,600 ha (394,200 acres) were in Serbia, and 90,800 ha (224,300 acres) were in Montenegro. The largest two of Serbia's five national parks are Djerdap (64,000 ha/158,000 acres) and Sar planina (39,000 ha/96,000 acres). Montenegro has four national parks; the largest are the Lake of Skadar Basin (40,000 ha/98,800 acres) and Durmitor (39,000 ha/96,300 acres). Serbia has dozens of spa resorts such as Vrnjacka Banja, Mataruska Banja, Niska Banja, Banja Kovilaca, and Bukovicka Banja. Yugoslavia has seven UNESCO natural area and heritage sites.

In 2000, 239,000 tourists arrived in the country. There were 37,371 hotel rooms with 76,608 beds and a 22% occupancy rate in 2000. That year receipts from tourism totaled \$26 million.

According to 2001 US government estimates, the cost of staying in Belgrade was \$188 per day. The daily costs elsewhere in the country averaged \$151.

#### 48 FAMOUS SERBS AND MONTENEGRINS

Sava Rastko Nemanjic (c.1174–1235) was the first Serbian archbishop and a writer who became one of Serbia's most prominent figures of the Middle Ages. Vuk Stefanovic Karadzic (1787–1864) reformed the Serbian language by clarifying grammar, standardizing the spelling, and compiling a dictionary. Dositej Obradovic (1742–1811) was a famous writer, philosopher, and teacher.

Djordje Petrovic Karadjordje (1768–1817) led a rebellion against the Turks in 1804. Zivojin Misis (1855–1921) was a

distinguished military leader during World War I. Prince Miloš Obrenović (r.1815–1839) founded the Obrenović dynasty and ruled Serbia as an absolute monarch. Prince Danilo II of Montenegro (r.1851–60) introduced a new legal code in 1855 that guaranteed civil and religious freedoms. King Alexander of Yugoslavia (1888–1934) was assassinated in Marseilles, France. Prince Paul of Yugoslavia (1893–1976) ruled as a regent for Peter II (1923–70) from 1934 to 1941 and was forced into exile after signing a secret pact with the Nazi government.

Slobodan Milošević (b.1941) was elected President of Serbia in 1990 and 1992 before being elected President of Yugoslavia in July 1997.

#### 49 DEPENDENCIES

Serbia and Montenegro has no dependencies or territories.

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# SLOVAKIA

Slovak Republic  
*Slovenska Republika*

**CAPITAL:** Bratislava

**FLAG:** Horizontal bands of white (top), blue, and red, superimposed with a crest of a white double cross on three blue mountains.

**ANTHEM:** *Nad Tatru sa blyska (Over Tatra it lightens).*

**MONETARY UNIT:** The currency of the Slovak Republic is the Slovak koruna (SK) consisting of 100 hellers, which replaced the Czechoslovak Koruna (KCs) on 8 February 1993. There are coins of 10, 20, and 50 hellers and 1, 2, 5, and 10 korun, and notes of 20, 50, 100, 500, 1,000, and 5,000 korun. SK1 = \$0.0271 (or \$1 = SK36.87) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; May Day, 1 May; Anniversary of Liberation, 8 May; Day of the Slav Apostles, 5 July; Anniversary of the Slovak National Uprising, 29 August; Reconciliation Day, 1 November; Christmas, 24–26 December. Movable holiday is Easter Monday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Slovakia is a landlocked country located in Eastern Europe. Comparatively, it is about twice the size of the state of New Hampshire with a total area of 48,845 sq km (18,859 sq mi). Slovakia shares boundaries with Poland (on the N), Ukraine (on the E), Hungary (on the S), and Austria and the Czech Republic (on the W), and has a total boundary length of 1,355 km (842 mi). Slovakia's capital city, Bratislava, is located on the southwestern border of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Slovakia features rugged mountains in the central and northern part of the country, and lowlands in the south. The High Tatras (Tatry) mountains along the Polish border are interspersed between many lakes and deep valleys. Bratislava is situated in Slovakia's only substantial region of plains, where the Danube River forms part of the border with Hungary.

## <sup>3</sup>CLIMATE

Slovakia's climate is continental, with hot summers and cold winters. In July the mean temperature is 21°C (70°F). January's mean temperature is -1°C (30°F). Rainfall averages roughly 49 cm (19.3 in) a year, and can exceed 200 cm (80 in) annually in the High Tatras.

## <sup>4</sup>FLORA AND FAUNA

Over one-third of the land is forest. Some original steppe grassland areas can be found in Slovakia today. Mammals found in the country include fox, rabbits, and wild pig. A wide variety of birds inhabit the valleys of Slovakia. Carp, pike, and trout are found in the country's rivers, lakes, and streams.

## <sup>5</sup>ENVIRONMENT

Like the Czech Republic, Slovakia has had its air contaminated by sulfur dioxide emissions resulting from the use of lignite as an energy source by the former Czechoslovakia, which had the highest levels of sulfur dioxide emissions in Europe. Slovakia

instituted a program to reduce pollution in the late 1980s. Air pollution by metallurgical plants endangers human health as well as the environment, and lung cancer is prevalent in areas with the highest pollution levels.

Airborne emissions in the form of acid rain, combined with air pollution from Poland and the former German Democratic Republic, have damaged Slovakia's forests. Land erosion caused by agricultural and mining practices is also a significant problem.

As of 2001, 22.1% of Slovakia's total land area is protected. In 2001, 8 mammal species, 4 types of birds, and 11 plant species were endangered. Threatened species include the Danube salmon, marsh snail, and false ringlet butterfly.

## <sup>6</sup>POPULATION

The population of Slovakia in 2003 was estimated by the United Nations at 5,402,000, which placed it as number 106 in population among the 193 nations of the world. In that year approximately 11% of the population was over 65 years of age, with another 19% of the population under 15 years of age. There were 94 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.08%, with the projected population for the year 2015 at 5,441,000. The population density in 2002 was 110 per sq km (286 per sq mi). The population is most dense in the river valleys.

It was estimated by the Population Reference Bureau that 57% of the population lived in urban areas in 2001. The capital city, Bratislava, had a population of 460,000 in that year. Košice had a population of 235,160. According to the United Nations, the urban population growth rate for 2000–2005 was 0.5%.

## <sup>7</sup>MIGRATION

Slovakia receives about 450 asylum-seekers every year. At the beginning of 1999, 400 refugees were recognized. Of these, 300 have remained in the country, and 39 have been granted Slovak citizenship. In April 1999 Slovakia granted temporary protection to 90 refugees from Kosovo. Of these, 70 left Slovakia in July

1999 and returned home. In 1999, the net migration rate was 0.29 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The population is 85.7% Slovak according to the latest estimates. Hungarians, heavily concentrated in southern border areas, total 10.6%. Romas (Gypsies) are reported to make up 1.6% of the populace; Czechs form 1%; Ruthenians account for 0.3%; Ukrainians for another 0.3%; Germans for 0.1%; Poles for an additional 0.1%; and various other groups account for the remaining 0.3%. The Gypsy population in eastern Slovakia is underreported but estimated to be sizeable. Czechs have the option of dual citizenship.

## 9 LANGUAGES

Slovak is the official language. It belongs to the western Slavic group and is written in the Roman alphabet. There are only slight differences between Slovak and Czech, and the two are mutually intelligible. Slovak lacks the *č*, *ů*, and *ř* in Czech but adds *ä*, *ľ*, *ô*, and *í*. As in Czech, *q*, *w*, and *x* are found only in foreign words. A minority language like Hungarian may be used for official business if its speakers make up at least 20% of the population on the local level.

## 10 RELIGIONS

The Slovak Republic has been a strongly Catholic region, even during the period of communist repression of religion from 1944–89. According to the 2001 census, about 69% of the population are Roman Catholics. About 7% of the population are Augsburg Lutheran, 4% are Byzantine Catholics, 2% are members of the Reformed Christian Church, and 1% are Orthodox. Other registered groups include Jehovah's Witnesses, Baptists, Brethren Church members, Seventh-Day Adventists, Apostolic Church members, Evangelical Methodists, and members of the Christian Corps in Slovakia and the Czechoslovak Hussite Church. There are about 2,310 members of the Jewish community, according to the census.

There are about 30 unregistered groups in the country, including: Hare Krishnas, Shambaola Slovakia, Shri Chinmoy, Zazen International Slovakia, Zen Centermyo Sahn Sah, the Church of Scientology, the Baha'i Faith, the Society of Friends of Jesus Christ (Quaker), Nazarenes, and the Church of Jesus Christ of Latter-Day Saints (Mormon).

## 11 TRANSPORTATION

There were some 3,660 km (2,274 mi) of railroads in 2002, primarily consisting of the Bratislava-Koice route.

The road system totaled 17,710 km (11,005 mi) in 2002, 17,533 km (10,895 mi) of which were paved, including 288 km (179 mi) of expressways.

As an inland country, Slovakia relies on the Danube, 172 km (45 mi), for transportation of goods. Bratislava and Komárno are the major ports on the Danube, which connects with the European waterway system to Rotterdam and the Black Sea. In 2002, Slovakia's merchant fleet was comprised of three ships, totaling 15,191 GRT.

Slovakia had 34 airports in 2001, 17 of which had paved runways. Air service in Slovakia is conducted primarily through M.R. Stefanik Airport at Bratislava. In 2001, 43,100 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

The first known peoples of the territory of present-day Slovakia were Celts, who lived in the region about 50 BC. The Celts were pushed out by Slavs, who moved in from the east at the beginning of the modern era. A Frankish merchant named Samo formed the first unified state in the region in the mid-7th century. The

Moravia Empire appeared in the 9th century, incorporating parts of present-day Slovakia. Although the first Christian missionaries active in the area were Orthodox (including the monks Cyril and Methodius, who introduced an alphabet of their own invention—still called Cyrillic—in which to write the Slavic languages), it was the Roman church that eventually established dominance. At the end of the 9th century the Magyars (Hungarians) began to move into Slovakia, incorporating the territory into their own. For many centuries the Hungarians treated the Slovaks as subject people, so it was not until the 13th century, when Hungary had been ravished by Tatar invasions, that the territory began to develop. Some contact with the Czechs, who speak a closely related language, began in the early 15th century, as refugees from the Hussite religious wars in Bohemia moved east.

After the Turkish victory at Mohacs in 1526 the Kingdom of Hungary was divided into three parts; so-called "Royal Hungary," which included Slovakia, was passed to the rule of the Hapsburg dynasty. Bratislava became the Hapsburg capital until the end of the 17th century, when the Turks were driven from Hungarian territory, and the Hungarian capital moved to Budapest. Although there was some religious spillover of Protestantism from the west, Slovakia was solidly in control of the Catholic Counter-Reformation, establishing the long tradition of strong church influence in the region.

In the late 18th century the attempt of the Hapsburg rulers, especially Josef II (1765–1790), to germanify the empire led to a rise in Hungarian nationalism, which in turn stimulated a rise in Slovak national self-consciousness. During the 1848 Revolution a program, "Demands of the Slovak Nation," was formulated, which called for the use of Slovak in schools, courts, and other settings, and demanded creation of a Slovak assembly. These demands were rejected, and the Hungarians continued their efforts to suppress Slovak nationalism. When the Austro-Hungarian Empire was formed in 1867, the Hungarians began a program of intense Magyarification. In the absence of a Slovak intellectual elite, nationalistic ideals were largely maintained by the local clergy.

When World War I began the Slovaks joined with the Czechs and other suppressed nationalities of the Austro-Hungarian Empire in pushing for their own state. Czech and Slovak immigrants in America were united in their efforts to prod the United States to recognize a postwar combined Czech and Slovak state. The Czechs declared independence on 28 October 1918, and the Slovaks seceded from Hungary two days later, to create the Czecho-Slovak Republic.

The relationship between the two parts of the new state was never firmly fixed. The Czech lands were more developed economically, and Czech politicians dominated the political debate. Although they were supported by a portion of Slovak society, there remained a large constituency of Slovak nationalists, most of them in Jozef Tiso's People's Party, who wanted complete independence.

Attempts to deal with Slovak separatist sentiments occupied a good deal of legislative time during the first Czechoslovak Republic, particularly since economic development continued to favor the Czech lands over the Slovak.

In 1938 Adolph Hitler demanded that the Sudeten German area, in the Czech part of the country, be ceded to Germany. Representatives of Germany, Italy, France, and the UK met in Munich, without participation by Czechoslovakia, and decided that in order to achieve "peace in our time" Germany could occupy the Sudetenland, which it did in October 1938. Slovak nationalists argued that once the dismemberment of Czechoslovakia had begun, they too should secede, particularly because both Poland and Hungary also took advantage of the situation to seize parts of Slovakia. When Hitler's forces seized Prague in March 1939, a separate Slovak state was declared, which immediately fell under Nazi domination. Although



LOCATION: 47°44' to 49°37' ; 16°51' to 22°34' E. BOUNDARY LENGTHS: Total boundary lengths, 1,355 kilometers (842 miles); Austria, 91 kilometers (57 miles); Czech Republic, 215 kilometers (134 miles); Hungary, 515 kilometers (320 miles); Poland, 444 kilometers (275 miles); Ukraine, 90 kilometers (56 miles).

nominally independent, the Slovakia of President Tiso was never more than a Nazi puppet.

During the war Slovak leaders like Stefan Osusky and Juraj Slavik cooperated with E. Benes' Czechoslovak government-in-exile, headquartered in London. There was also a small group of Slovak communists who took refuge in Moscow. In December 1943 a Slovak National Council was formed in opposition to the Tiso government, with both democratic and communist members. They began an uprising in Banská Bystrica in August 1944, which failed because of lack of support by both the West and the Soviet Union. When the war ended, the Slovak National Council took control of the country. Soviet attempts to use Slovak nationalism as a tool of control failed in the 1946 elections, when non-communist parties received 63% of the vote. The communists switched their tactics to encouraging civil disorder and arresting people accused of participation in the wartime Slovak government. Tiso himself was executed in 1947.

Elsewhere in Czechoslovakia, the communists had been the largest vote getters in the 1946 elections, but in 1948 it seemed that they might lose. Rather than risk the election, they organized a Soviet-backed coup, forcing President Benes to accept a government headed by Klement Gottwald, a communist. Benes resigned in June 1948, leaving the presidency open for Gottwald, while A. Zapotocky became prime minister.

Once Czechoslovakia became a People's Republic, and a faithful ally of the Soviet Union, a wave of purges and arrests rolled over the country, from 1949 to 1954. In 1952 a number of high officials, including Foreign Minister V. Clementis and R.

Slansky, head of the Czech Communist Party, were hanged for "Tito-ism" and "national deviation."

Gottwald died in March 1953, a few days after Stalin, setting off the slow erosion of communist control. Zapotocky succeeded to the presidency, while A. Novotny became head of the party; neither had Gottwald's authority, and so clung even more tightly to the Stalinist methods, which, after Nikita Khrushchev's secret denunciation of Stalin in 1956, had begun to be discredited even in the USSR. Novotny became president upon Zapotocky's death in 1957, holding Czechoslovakia in a tight grip until well into the 1960s.

Khrushchev's liberalization in the USSR encouraged liberals within the Czechoslovak party to try to emulate Moscow. Past abuses of the party, including the hanging of Slansky and Clementis, were repudiated, and Novotny was eventually forced to fire many of his most conservative allies, including Karol Bacilek, head of the Slovak Communist Party, and Viliam Siroky, premier for more than a decade. Slovaks detested both men because of their submission to Prague's continued policies of centralization, which in practice subordinated Slovak interests to those of the Czechs.

Alexander Dubček, the new head of the Slovak Communist Party, attacked Novotny at a meeting in late 1967, accusing him of undermining economic reform and ignoring Slovak demands for greater self-government. Two months later, in January 1968, the presidency was separated from the party chairmanship, and Dubček was named head of the Czechoslovak Communist Party, the first Slovak ever to hold the post.

Novotny resigned in March 1968, and Czechoslovakia embarked on a radical liberalization, which Dubček termed “socialism with a human face.” The leaders of the other eastern bloc nations and the Soviet leaders viewed these developments with alarm. Delegations went back and forth from Moscow during the “Prague Spring” of 1968, warning of “counter-revolution.” By July the neighbors’ alarm had grown; at a meeting in Warsaw they issued a warning to Czechoslovakia against leaving the socialist camp. Although Dubček himself traveled to Moscow twice, in July and early August, to reassure Soviet party leader Brezhnev, the Soviets remained unconvinced.

Finally, on the night of 20–21 August 1968, military units from all the Warsaw Pact nations except Romania invaded Czechoslovakia, to “save it from counter-revolution.” Dubček and other officials were arrested, and the country was placed under Soviet control. Difficulties in finding local officials willing to act as Soviet puppets caused the Soviets to play on Czech and Slovak antagonisms. On 31 December 1968 the country was made into a federative state, comprised of the Czech Socialist Republic and the Slovak Socialist Republic, each with its own legislature and government. In April Gustav Husak, once a reformer, but now viewing harmony with the USSR as the highest priority, was named head of the Czech Communist Party. A purge of liberals followed, and in May 1970 a new Soviet-Czechoslovak friendship treaty was signed; in June Dubček was expelled from the party.

Between 1970 and 1975 nearly one-third of the party was dismissed, as Husak consolidated power, re-establishing the priority of the federal government over its constituent parts and, in May 1975, reuniting the titles of party head and republic president.

Once again it was liberalization in the USSR, which set off political change in Czechoslovakia. Husak ignored Soviet leader Mikhail Gorbachev’s calls for perestroika and glasnost until 1987, when he reluctantly endorsed the general concept of Party reform, but delayed implementation until 1991. Aging and in ill health, Husak announced his retirement in December 1987, declaring that Milos Jakes would take his post; Jakes had been a life-long compromiser and accommodator who was unable to control dissenting factions within his party, which were now using the radical changes in the Soviet Union as weapons against one another.

Enthusiasm for political change was not as great in Slovakia as it was in the Czech west, where in November 1989 people had begun to gather on Prague’s Wenceslas Square, demanding free elections. The so-called “velvet revolution” ended on 24 November, when Jakes and all his government resigned. Novotny resigned his presidency soon after.

Alexander Dubček was brought out of exile and put forward as a potential replacement, but the hostility of Czech intellectuals and activists, who felt that they had to drag unwilling Slovaks into the new era, made it impossible to choose a Slovak as president. The choice fell instead on Vaclav Havel, a Czech playwright and dissident, who was named president by acclamation on 29 December 1989, while Dubček was named leader of the National Assembly.

Dismantling the apparatus of a Soviet-style state began immediately, but economic change came more slowly, in part because elections were not scheduled until June 1990. The old struggle between Czechs and Slovaks intensified, as Slovaks grew increasingly to resist the programs of economic and political change being proposed in Prague. Slovak demands led to an almost immediate renaming of the country, as the Czech and Slovak Federal Republic.

In the June elections the Slovaks voted overwhelmingly for Public Against Violence, the Slovak partner of the Czech Civic Forum, which meant that economic transformation was begun. Again there was much greater enthusiasm for returning to private

ownership in the west than there was in the east, intensifying Slovak separatism. In December 1990 the country’s Federal Assembly attempted to defuse the problem by increasing the roles of the Czech and Slovak regional governments, but it also gave President Havel extraordinary powers, to head off attempts at Slovak secession. The nationalists found an articulate and persuasive voice for growing separatist sentiments in Vladimir Meciar, the Slovak Premier.

During a visit to Bratislava in March 1991, President Havel was jeered by thousands of Slovaks, making obvious the degree of Slovak discontent. Meciar was replaced in April 1991, by Jan Carnogursky, but the easing of tensions was only temporary, since Carnogursky, too, favored an independent Slovakia.

By June 1992 matters had reached a legislative impasse, so new federal elections were called. Slovakia chose to hold elections for its National Council at the same time. In July the new Slovak legislature issued a declaration of sovereignty and adopted a new constitution as an independent state, to take effect 1 January 1993. Throughout 1991 and 1992 a struggle followed, with the Federal Assembly and president on one side, trying to devise ways of increasing the strength of the federal state, and the Czech and Slovak National Councils, or legislatures, on the other, seeking to shore up their own autonomy at the expense of the central authorities. Although polls indicated that most Slovaks continued to favor some form of union with the Czechs, the absence of any national figure able or willing to articulate what form that union might take, left the field to the separatists and the charismatic Meciar.

In the federal election the vote split along national and regional lines, with the Czechs voting for right-of-center, reformist candidates, especially Vaclav Klaus’s Civic Democratic Party, while the Slovaks voted for leftist and nationalist parties, especially Vladimir Meciar’s Movement for a Democratic Slovakia (MDS). Although the federal government and President Havel continued to try to hold the state together, Czech Prime Minister Klaus made clear that the Czechs would offer no financial incentives or assistance to induce the Slovaks to remain in the union. Increasingly the republics began to behave as though they were already separate so that, for example, by the end of 1992, 25.2% of Czech industry had been privatized, while only 5.3% of Slovak industry had. By the end of 1992 it was obvious that separation was inevitable. The two prime ministers, Klaus and Meciar, agreed to the so-called “velvet divorce,” which took effect 1 January 1993. Czechs and Slovaks alike have objected that this move was never put to a popular referendum.

The new constitution created a 150-seat National Assembly, which elects the head of state, the president. Despite the strong showing of his party, Prime Minister Meciar was unable to get his first candidate through, and so put up Michal Kovac, a Dubček supporter and former Finance Minister in Slovakia, who had served as the last chairman of Czechoslovakia’s federal parliament.

The Meciar government rejected the moves toward political and economic liberalization which the Czechs were pursuing, attempting instead to retain a socialist-style government, with strong central control. Swift economic decline, especially relative to the Czech’s obviously growing prosperity, combined with Meciar’s own erratic and autocratic manner, caused him to lose a vote of no-confidence in March 1994.

Kovac was elected for a five-year term by the National Parliament on 8 February 1993; on 12 December 1994 he appointed Meciar prime minister. Meciar’s party (MDS), which won 35% of the vote in the 1994 elections, formed a ruling government with the Slovak National Party and the Association of Slovak Workers. However, Meciar again was slow to implement economic reforms, and his attempts to consolidate his power via undemocratic legislation were rebuffed in 1996 by President Kovac. The MDS-led coalition government managed to

remain in power until the September 1998 elections. During the MDS era, opportunities to privatize state-owned property were used to reward political loyalty, and election laws were changed in a way that favored the MDS. Much of the legislation introduced by the Meciar government was found to be unconstitutional.

Under the new election laws, the Slovak Democratic Coalition (SDC) was formed by five small political groups in 1997. Mikulas Dzurinda was its leader. Elections held in September 1998 saw the SDC gain 26.33% of the vote. On 30 October 1998, SDC formed a coalition government with Dzurinda as prime minister.

In January 1999, parliament passed a new law allowing for the direct election of the president. Presidential elections were held on 15 and 29 May, and in the second round, Rudolf Schuster of the small centrist Party of Civic Understanding (SOP) was elected with 57.2% of the vote over Meciar (42.8%). The Organization for Security and Cooperation in Europe (OSCE) found the elections to be free and fair. In July 1999, a law was passed improving the status of minority languages. In February 2001, parliament amended the constitution as a step toward gaining membership in the EU and NATO. Among the 85 amendments bringing the 1992 constitution in line with EU judiciary and financial standards were the creation of an ombudsman as a public protector of human rights, and an initiative to have the government support the aspirations of ethnic Slovaks living abroad to preserve their national identity and culture.

Parliamentary elections were held on 20 and 21 September 2002, and although Meciar's HZDS party won the most number of seats in the 150-member National Council (36), three core center-right parties formed a coalition without left-wing parties that had previously hampered it. Dzurinda continued in office as prime minister.

At a NATO summit in Prague held in November 2002, Slovakia was formally invited to join the organization, and in December, it was one of 10 new countries invited to join the EU. EU accession for Slovakia is expected in 2004. The government still faces the task of improving the conditions of its Roma (gypsy) minority, cutting the budget deficit, creating jobs, reforming the judicial system, and fighting corruption.

### 13 GOVERNMENT

The constitution that the Slovak National Assembly adopted in July 1992 calls for a unicameral legislature of 150 members (the National Council of the Slovak Republic). Voting is by party slate, with proportional seat allotment affecting the gains of the winner. Thus in the 1994 election Meciar's party gained 61 of the 150 seats, with only 35% of the popular vote. In the 2002 election, Meciar's party gained 36 seats in the National Council, with 19.5% of the vote. The government is formed by the leading party, or coalition of parties, and the prime minister is head of the government. A coalition of center-right parties formed the government in 2002. Head of state is the president, who, after 1999, was directly elected by popular vote for a five-year term. A cabinet is appointed by the president on the recommendation of the prime minister. Rudolf Schuster was Slovakia's first directly elected president.

### 14 POLITICAL PARTIES

There were 18 parties contesting the 150 seats of the National Council in the 1994 election, but only 7 or 8 were considered to be serious contenders, because of the necessity of receiving 5% of the total vote in order to take a seat. In 2002, there were 7 parties that won seats in the National Council. The single most popular party in 1994 was the Movement for a Democratic Slovakia (HZDS), which won 35% of the vote. By 2002, HZDS won just 19.5% of the vote and 36 seats; although it won the most votes it was unable to form a government. Prime Minister Mikulas Dzurinda heads a coalition consisting of the Slovak Democratic

and Christian Union (SDKU) with 15.1% of the vote and 28 seats; the Party of the Hungarian Coalition (SMK) with 11.2% of the vote and 20 seats; the Christian Democratic Movement (KDH) with 8.3% of the vote and 15 seats; and the Alliance of a New Citizen (ANO) with 8% of the vote and 15 seats. Also winning seats in parliament were the populist Smer Party (Party Direction—Third Way) with 13.5% of the vote and 25 seats, and the Slovak Communist Party with 6.3% of the vote and 11 seats.

### 15 LOCAL GOVERNMENT

Slovakia is currently divided into 79 districts and 8 regions (*kraje*), and each region has a parliament and governor. The 8 regional parliaments were created in January 2002 under the new amended constitution as part of Slovakia's efforts to gain membership in the EU.

### 16 JUDICIAL SYSTEM

The judicial system consists of a republic-level Supreme Court as the highest court of appeal; 8 regional courts seated in regional capitals; and 55 local courts seated in some district capitals. The courts have begun to form specialized sections, including commercial, civil, and criminal branches.

The 13-member Constitutional Court reviews the constitutionality of laws as well as the constitutional questions of lower level courts and national and local government bodies. Until 2002, parliament nominated and the president appointed the Constitutional Court and Supreme Court judges, and parliament chose all other judges based on the recommendations from the Ministry of Justice. In 2002, however, parliament passed legislation creating a Judicial Council, composed of judges, law professors, and other legal experts, to nominate judges. All judges except those of the Constitutional Court are now appointed by the president from a list proposed by the 18-member Council. The president still appoints the Constitutional Court judges from a slate of candidates nominated by parliament.

The constitution declares the independence of the judiciary from the other branches of government. Judges are appointed for life, but Constitutional Court judges serve seven-year terms.

There is also a military court system, and appeals may be taken to the Supreme Court and the Constitutional Court.

Defendants in criminal cases have the right to free legal counsel and are guaranteed a fair and open public trial.

### 17 ARMED FORCES

In 2002 the total active armed forces of Slovakia numbered 26,200, with reserves numbering 20,000. The army had 13,000 personnel, armed with 272 main battle tanks. Air Force personnel totaled 10,200, equipped with 60 combat aircraft and 19 attack helicopters. Additionally, there were 4,700 members of paramilitary units, including border police, guard troops, civil defense troops, and railway defense troops. Slovakia provided assistance to seven UN and peacekeeping missions. The defense budget for 2002 was \$406 million or 1.9% of GDP.

### 18 INTERNATIONAL COOPERATION

Slovakia is a member of the UN, which it joined in 1993 when Czechoslovakia agreed to split into two parts. The country is a member of the WTO, ECE, IAEA, ICAO, IDA, IFC, ILO, IMF, ITU, OSCE, UNESCO, UNIDO, UPU, WHO, WIPO, and the World Bank. It is an applicant to the EU, and is expected to join that body in 2004. Slovakia was formally invited to join NATO in November 2002.

## 19 ECONOMY

Slovakia is continuing the difficult transformation from a centrally controlled economy to a market-oriented economy with some measure of success. Sustained GDP growth, although slowed after 1998, has been achieved, and inflation has moderated to single digits. While privatization has been carried out at an uneven pace, macroeconomic performance has improved steadily with 4.8% growth in 1994 and an average annual GDP growth rate of 6.66% 1995 to 1997. In 1998, however, the effects of the Russian financial crisis slowed investment and demand, reducing annual GDP growth to 4.4% in 1998, and to 1.9% in 1999. The pace of growth accelerated slowly from 2000 to 2002, from 2.2% to 3.3% to 4.4%, respectively. Average annual inflation after independence fell from 13.4% to 5.8% in 1996, but then hit double digits again in 2000, at 12%. In 2000 the government implemented austerity measures that helped to bring inflation down to 7.3% in 2001 and 3.1% in 2002. Unemployment remains a serious concern, at 19.8% in 2001 and 17.2% in 2002. The per capita GDP in purchasing power parity (PPP) terms, at \$8,300 in 1998, had reached \$11,500 (CIA est.) in 2001.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Slovakia's gross domestic product (GDP) was estimated at \$66 billion. The per capita GDP was estimated at \$12,200. The annual growth rate of GDP was estimated at 4%. The average inflation rate in 2002 was 3.3%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 5% of GDP, industry 34%, and services 61%. Foreign aid receipts amounted to about \$30 per capita and accounted for approximately 1% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$2,297. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 4%. Approximately 26% of household consumption was spent on food, 16% on fuel, 5% on health care, and 12% on education. The richest 10% of the population accounted for approximately 18.2% of household consumption and the poorest 10% approximately 5.1%.

## 21 LABOR

As of 1999, there were about three million members of the Slovak workforce. Of those employed, about 9% were in agriculture; 29% in industry; 8% in construction; 8% in commerce, and the remainder in other sectors. Unemployment was 17.2% in 2002.

Unions are freely allowed to organize in Slovakia as well as engage in collective bargaining. Strikes are legal only if they meet certain stringent requirements. About 45% of the workforce was unionized in 2002.

Children may not work until the age of 15. After age 16, minors may work without restrictions as to hours or condition of work. These provisions are effectively enforced by the government. The minimum wage was \$105 per month in 2002. The standard workweek was 42.5 hours, although under collective bargaining agreements, many workweeks are 40 hours. The government sets minimum occupational health and safety standards and it effectively monitors them.

## 22 AGRICULTURE

Agriculture engaged 9% of the economically active population in 1999. The total cultivated area in 1999 was 1,605,000 ha (3,966,000 acres), or 33.3% of the land area. Agriculture accounted for about 4% of GDP in 2001.

Barley and hops are important agricultural exports; fruit, wine, and seed oil are also produced for export. Important crops in Slovakia in 1999 (in thousands of tons) included: wheat, 1,207; barley, 761; corn, 779; potatoes, 384; rye, 74; and sugar beets, 1,408. In 1999, 25,067 tractors and 4,445 combines were in use.

During 1980–90, agricultural production grew by an average of 1.6% annually. During 1990–2000, agriculture increased by an annual average of 1.2%. Cereal production in 1999 was only 71% of the average during 1989–91.

## 23 ANIMAL HUSBANDRY

Some 833,000 hectares (2,058,000 acres) of land are meadows and pastures, representing 17.3% of the total land area. In 2001, there were some 1,488,000 pigs, 645,000 head of cattle, 358,000 sheep, 10,000 horses, and 27 million chickens. Meat production was estimated at 271,000 tons in 2001, with pork accounting for 56%; beef, 14%; poultry, 27%; and others, 3%. Milk production was 1,147,000 tons in 2001. Due to the concern over bovine spongiform encephalopathy (mad cow disease), in July 1996 Slovakia banned selected imports and transit of cattle and sheep, and beef and mutton imports and transits coming from the United Kingdom, Ireland, Portugal, France, and Switzerland.

## 24 FISHING

Fishing is only a minor source of the domestic food supply. Production comes mostly from mountain streams and stocked ponds. Some of the rivers and ponds near Bratislava are polluted with chemicals and petrochemical seepings, impairing the growth of fish stocks regionally. The total catch in 2000 was 2,250 tons, with common carp and rainbow trout the dominant species.

## 25 FORESTRY

In 2000, about 45% of Slovakia was under forest cover. Forests have been severely damaged by acid rain from coal-fired power stations. Roundwood production in 2000 was 5,213,000 cu m (184 million cu ft). Slovakian forest product exports include paper, wood, and furniture. In 2000, wood pulp production amounted to 424,000 tons; paper and paperboard, 662,000 tons; and wood-based panels, 5,864,000 cu m (207 million cu ft). Slovakia's trade surplus in forestry products was nearly \$176.5 million in 1997.

## 26 MINING

Metal and metal products, particularly aluminum and steel, comprised Slovakia's leading industry in 2002—based almost entirely on imported raw materials. Gas, coke, oil, nuclear fuel, and chemicals were other top industries. Industrial mineral production in 2000 included: dolomite, 1.5 million tons, down from 2 million tons in 1997; lime (hydrated and quicklime), 700,000 tons; magnesite concentrate, 1 million tons, up from 824,800 in 1996; crude gypsum and anhydrite, 120,000 tons; salt, 121,700 tons; barite concentrate, 13,700 tons, down from 62,102 in 1997; bentonite, 77,000 tons; kaolin, 21,000 tons; perlite, 17,020 tons, down from 24,240 in 1998; and zeolites, 10,000 tons. The Kosice magnesite mines were put on care-and-maintenance. Also produced in 2000 were arsenic, diatomite, feldspar, illite, iron ore, refractory clays, nitrogen, sand and gravel, sodium compounds, limestone and other calcareous stones, crushed stone, sulfur, sulfuric acid, and talc. No zinc, lead, gold, silver, or copper was mined in 2000. Other mineral resources included antimony ore, mercury, brick soils, ceramic

materials, and stonessalt. All mining companies were government owned.

## 27 ENERGY AND POWER

Total generation in 2000 amounted to 26.4 billion kWh, of which 35.3% was from fossil fuels, 17.1% from hydropower, and 47.6% from nuclear power. By 2001 nuclear power accounted for 54% of production, thanks to two new reactors that had come on line between 1998 and 2000, reducing Slovakia's dependence on fossil fuels and allowing it to become a net exporter of electricity. Consumption of electricity in 2000 was 25.2 billion kWh. As of 2001, total installed capacity was 7,454,000 kW. The Bohunice nuclear power plant has four 408 MW reactors that became operational in the early 1980s. Slovensky Energeticky Podnik (SEP) is a state-owned enterprise that is the dominant producer and provider of electricity; its transmission system includes 1,519 km (943 mi) of high voltage lines with 14 substations, and 964 km (196 mi) of standard voltage lines with 11 substations.

In November 1993, the Gabčíkovo Project began operating. Originally begun as a joint project with Hungary in 1977, it was delayed when all construction stopped in October 1989, because Hungary perceived it as environmentally hazardous to the Danube basin. By May 1992, Hungary agreed to a compromise that allowed the project's completion. The power station has eight Kaplan turbines and generators with an installed capacity of 720,000 kW, enough to satisfy peak demands.

Coal mining produced some 2.5 million tons of lignite in 2001, from reserves of 190 million tons. In early 2003 Slovakia had oil reserves of 9 million barrels. Production in 2002 was 1,000 barrels per day. In the same year the refinery at Slovnaft had a capacity of 115,000 barrels per day. Slovakia's gas consumption is the highest in north-central Europe. In 2002 natural gas was used by 80% of all Slovak households.

## 28 INDUSTRY

Major industries include heavy engineering, armaments, iron and steel production, nonferrous metals, and chemicals. In 2000, industry accounted for 34% of Slovakia's GDP, and the industrial growth rate was estimated at 4% in 2001. Foreign firms such as Volkswagen, US Steel, and Whirlpool are major investors in Slovak industry. Although privatization was ongoing in 2002 (including the Slovak Gas Company and oil-pipeline operator Transpetrol), and the country was attracting more foreign investment, many firms untouched by foreign investment were in trouble. Nonetheless, many Slovakian enterprises were restructuring and modernizing their equipment and methods. Slovakia produced 182,003 automobiles in 2001, and 264 heavy trucks in 2000. The country had one oil refinery in 2002, with a capacity of 115,000 barrels per day.

## 29 SCIENCE AND TECHNOLOGY

The Slovak Academy of Sciences, founded in 1953, has departments of exact and technical sciences and of natural sciences and chemistry, and 36 affiliated research institutes. The Council of Scientific Societies, headquartered in Bratislava, coordinates the activities of 16 societies concerned with specific scientific and technical fields. Natural history exhibits are displayed in the Slovak National Museum in Bratislava, the Central Slovak Museum in Banská Bstrica, and the Museum of Eastern Slovakia in Košice. The Slovak Mining Museum, founded in 1900, is located in Banská Stiavnica. Eight universities offer scientific and technical degrees. In 1987-97, science and engineering students accounted for 40% of university enrollment.

In 1987-97, research and development expenditures totaled 1% of GNP; 1,866 scientists and engineers and 792 technicians per one million people were engaged in research and development.

## 30 DOMESTIC TRADE

Bratislav is the primary commercial center of the country. Other major centers include Kosice, Trenčín, Zilina, and Poprad. Nitra is a primary distribution center for agricultural products.

Retail trade is currently undergoing rapid privatization along with other sectors of the economy. As of 2002, about 98% of all retail establishments were privatized. Most establishments are small, family owned shops specializing in one type of product, such as groceries, flowers, books, clothing, music, etc. However, the trend is slowly moving towards larger Western-style stores and hypermarkets that offer a wider variety of products under one roof. Wholesalers tend to be directly involved in the retailing of their products as well. A few franchise firms have recently made their way into the country.

Retail shops are generally open from 9 AM to 6 PM, Monday through Friday. New chain stores are open seven days a week from about 7 AM to 8 PM. Grocery stores often operate from 6 AM to 7 PM. Many stores will open for half a day on Saturdays, but most businesses and shops are closed on Sundays.

## 31 FOREIGN TRADE

The Czech Republic, which used to account for as much as one-third of Slovakia's foreign trade, has dropped behind Germany as Slovakia's leading trade partner. Trade with the former Soviet Union has declined in importance and has increasingly been replaced by trade with the OECD, whose members buy over 90% of all Slovak exports.

In the Far East, China has emerged as the top trading partner, with imports and exports between the two nations increasing by almost 300% in 1995.

As of 2000, industrial manufacturing, including automobiles (16%), iron and steel (9.5%), and refined petroleum products (6.5%) topped the list for Slovakia's export commodities. Other exports include apparel (4.3%), motor vehicle parts and accessories (3.6%), paper (2.7%), furniture (2.4%), polymers (2.4%), textile yarn (1.7%), and rubber tires and tubes (1.2%).

In 2000 Slovakia's imports were distributed among the following categories: consumer goods, 12.3%; food, 4.5%; fuels, 17.6%; industrial supplies, 30.6%; machinery, 19.9%; transportation, 15.0%; and other imports, 0.1%.

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	3,183	3,200	-17
Czech Republic	2,068	1,880	188
Italy	1,097	789	308
Austria	995	503	492
Poland	696	391	305
France	551	428	123
Netherlands	316	197	119
United Kingdom	225	309	-84
United States	170	265	-95
Russia	107	2,177	-2,070

## 32 BALANCE OF PAYMENTS

A decline in foreign trade in 2001 caused the central bank to revise its forecast of the current account deficit up from 4% to 5.7% of GDP.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Slovakia's exports was \$12.9 billion while imports totaled \$15.4 billion resulting in a trade deficit of \$2.5 billion.

The International Monetary Fund (IMF) reports that in 2000 Slovakia had exports of goods totaling \$11.9 billion and imports totaling \$12.8 billion. The services credit totaled \$2.2 billion and debit \$1.81 billion. The following table summarizes Slovakia's

balance of payments as reported by the IMF for 2000 in millions of US dollars.

<b>Current Account</b>	<b>-694</b>
Balance on goods	-895
Balance on services	436
Balance on income	-355
Current transfers	120
<b>Capital Account</b>	<b>91</b>
<b>Financial Account</b>	<b>1,472</b>
Direct investment abroad	-22
Direct investment in Slovakia	2,052
Portfolio investment assets	-195
Portfolio investment liabilities	1,016
Other investment assets	-973
Other investment liabilities	-407
<b>Net Errors and Omissions</b>	<b>51</b>
<b>Reserves and Related Items</b>	<b>-920</b>

### 33 BANKING AND SECURITIES

Four years after the Soviet system relinquished control over the eastern bloc, Slovakia formed a National Bank. In January 1992 the banking system of Czechoslovakia was split. From that point on the National Bank of Slovakia was charged with the responsibility of circulating currency and regulating the banking sector. At the end of 2002, there were 23 commercial banks operating in the Slovak Republic, including the Investment and Development Bank (1992); People's Bank (1992); Postal Bank Inc. (1991); Industrial Bank, Inc. (1992); First Commercial Bank Inc. (1993); Slovak Credit Bank (1993); Slovak Agricultural Bank (1991); and the General Credit Bank (1990). Twelve of the 23 commercial banks were partly or wholly foreign-owned. In addition, two branches and 10 representative offices of foreign banks had been established. In 2000, plans called for the privatization of the three largest banks, Vseobecna Uverova Banka (VUB), Slovenska Sporitelna, and Investicna a Rozvojova Banka (IRB) by the end of the year. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$4.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$13.9 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 7.76%.

The Bratislava Stock Exchange (BSE) opened on 8 July 1990 and acts as a share holding company formed by all Slovakian financial institutions, banks and savings banks, and companies authorized to trade securities. Brokers and other mediators are not permitted in the trading system. The volume of stocks traded on the BSE, however, has remained low until 1996. In 2001, there were 844 companies listed on the BSE, with a trading value of \$966 million (up 141% from 2000) and total market capitalization of \$665 million (down 10.3% from 2000). The Bratislava Option and Futures Exchange opened in 1994.

### 34 INSURANCE

The pre-World War II insurance companies and institutions of the former Czechoslovakia were reorganized after 1945 and merged, nationalized, and centralized. Since 1952, the insurance industry has been administered by the State Insurance Office, under the jurisdiction of the Ministry of Finance, and two enterprises conducted insurance activities, the Czech and the Slovak Insurance Enterprises of the State. In 1997, at least 20 insurance companies were doing business in Slovakia. Nonetheless, the Slovak Insurance Company remains the only company authorized to write the compulsory third-party automobile liability insurance. There are no restrictions on foreign ownership of companies.

### 35 PUBLIC FINANCE

Since the dissolution of Czechoslovakia, the Slovak government has implemented several measures to compensate for the large loss of fiscal transfers it received from the Federation, which were equivalent to between Sk20–25 billion in 1992. The Slovak government's initial budget was balanced at the beginning of 1992, with revenues and expenditures equivalent to Sk159 billion. Since that time, however, Slovakia's budget has fallen into deficit. Privatization efforts have been successful, attracting a large amount of foreign direct investment (FDI).

The US Central Intelligence Agency (CIA) estimates that in 1999 Slovakia's central government took in revenues of approximately \$5.2 billion and had expenditures of \$5.6 billion. Overall, the government registered a deficit of approximately \$400 million. External debt totaled \$9.6 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

<b>REVENUE AND GRANTS</b>	<b>100.0%</b>	<b>5,200</b>
Tax revenue	88.1%	4,583
Non-tax revenue	11.1%	576
Capital revenue	0.7%	38
Grants	0.1%	3
<b>EXPENDITURES</b>	<b>100.0%</b>	<b>5,600</b>
General public services	7.6%	426
Defense	4.2%	236
Public order and safety	4.1%	231
Education	9.4%	526
Health	17.9%	1,003
Social security	30.3%	1,697
Housing and community amenities	1.6%	90
Recreation, cultural, and religious affairs	1.7%	98
Economic affairs and services	15.4%	865
Other expenditures	-0.2%	-14
Interest payments	7.9%	443

### 36 TAXATION

The principal taxes are corporate income tax, personal income tax, and value-added tax. Individuals are liable for tax on all sources of worldwide income. Corporate income tax is levied on joint stock companies, limited liability companies, and limited partnerships. In 2002, the corporate tax rate for resident companies was 25%. Agricultural businesses were taxed only 15%. Capital gains were taxed at 25%, and the normal tax on dividends was 15%, although taxes on capital income were often reduced or eliminated in bilateral double-taxation prevention treaties. Owners of real estate are subject to an annual capital tax.

Individual income was taxed according to a progressive schedule with five bands: 10% (up to 90,000 Koruna, or about \$2,464 annual income); 20% on the next increment of income up to about \$4,928; 28% on the next increment up to about \$10,840; 35% on the next increment up to about \$15,442; and 38% on the increment above this amount. Besides standard deductions based on marital status, etc., there are allowable deductions for disabilities, health expenses, and mortgage interest payments.

The principle indirect tax is Slovakia's value-added tax (VAT). As of January 2002, the standard rate was reduced from 23% to 20%. In 2003, the reduced rate, which applies to foodstuffs, fresh fruits and vegetables, pharmaceuticals, electricity, gas and other basic utilities, was raised from 10% to 14%. Exported goods and a number of exported services are exempt from VAT. The



government plans to simplify the tax system in 2004, with cuts in direct taxes and more reliance on indirect taxes.

### 37 CUSTOMS AND DUTIES

As a WTO member, Slovakia uses the Brussels Tariff Nomenclature. Goods imported into Slovakia are liable to three kinds of charges: customs duties, value-added tax (VAT) of 10% or 23%, and excise tax. A 3% import surcharge was eliminated on 1 January 2001. However, Slovakia imposes surcharges on approximately 80% of its imports. Slovakia is also a member of the Central European Free Trade Area (CEFTA) along with Bulgaria, the Czech Republic, Hungary, Poland, Romania, and Slovenia.

### 38 FOREIGN INVESTMENT

Prior to the defeat of Prime Minister Vladimir Meciar, Slovakia experienced difficulty attracting foreign investment due to perceived political uncertainty and vacillations in its privatization policy. The government has introduced tax incentives to attract more capital from abroad.

Annual foreign direct investment (FDI) inflow was \$220 million in 1997 and rose to \$648 million in 1998. Affected by the Russian financial crisis, FDI inflow fell to \$390 million in 1999, but then recovered sharply in 2000 to reach a peak of over \$2 billion. FDI inflow to Slovakia in 2001 was \$1.5 billion. The Netherlands has been the single largest investor.

### 39 ECONOMIC DEVELOPMENT

The government in the early 1990s slowed economic reforms due to the social burden imposed by the transformation to a market economy. Measures included stimulation of demand through price subsidies and public spending. Slovakia's most successful structural reform has been privatization. The first stage of large-scale privatization included 751 companies, and a second stage, which involved 650 medium- and large-scale enterprises, was implemented in late 1993.

However, the Meciar government was slow to implement the \$1.5 billion privatization program after he regained power in 1994 and the country continued to rely heavily on foreign aid. Western investors cheered his defeat and replacement by reformer Mikulas Dzurinda in 1998. The Dzurinda government quickly earned praise for its implementation of reforms. The renewed liberalization measures, combined with a new attitude toward Slovakia's Roma (Gypsy) population caused the EU to place Slovakia back on its list of candidate members. In December 2002, Slovakia was officially invited to join the EU, with accession planned for May 2004.

Slovakia's foreign debt at the beginning of 2002 was about \$11 billion, approximately 55% of gross domestic product (GDP). The current account deficit was high, largely due to a shortfall in foreign trade. Foreign direct investment (FDI) has been relatively small in recent years, although FDI in 2000 alone was greater than cumulative investment received by Slovakia in the preceding 10 years. Although growth was strong and inflation relatively low in the early 2000s, the unemployment rate remained high. By 2002, the main banks and utilities had been privatized; but further corporate restructuring and labor market reform, improved banking supervision, and strengthening state administration and the judicial system remained structural reforms to be implemented.

### 40 SOCIAL DEVELOPMENT

Slovakia's social security system was first introduced in 1906. The current program was initiated in 1988 and amended in 1990, 1994, and 1995. Old age, disability and survivor's pensions are funded by employee and employer contributions as well as government subsidies. Retirement is set at age 60 for men, and age 53-57 for women, depending upon the number of children

raised. A family allowances system provides benefits for children in families below the poverty line. There are also sickness and maternity benefits, a workers' compensation program, and unemployment benefits.

Women and men are equal under the law, enjoying the same property, inheritance, and other rights, however discrimination persists. Women on the average earn 22% less than men. Despite legal safeguards, the small number of women in private and public leadership roles is evidence of continuing cultural barriers to full equality. The Coordinating Committee for Women's Affairs has not been successful at protecting women against violence, health risks, or economic disadvantages. Domestic abuse and sexual violence against women remains an extensive and underreported problem.

Roma minorities suffer from high levels of unemployment and housing discrimination. Attacks against Roma and other minorities by skinhead extremists were reported. Human rights were generally well respected, but some democratic freedoms were not respected. These include the intimidation of political opponents and interference with the media. There were also reports of police abuse of Roma.

### 41 HEALTH

Since 1995 general public health services have been organized into a system of state health institutes. However, primary health care services, formerly operated by the state, are now separate from the public health sector and reimbursed through a compulsory insurance program. There were 77 polyclinics in Slovakia in 1998, up from 52 in 1990. In 1994 Slovakia had 84 hospitals, 23 specialized institutes, and one maternity facility. As of 1999, there were an estimated 3.5 physicians and 7.1 hospital beds per 1,000 people. There were over 4,000 specialists providing secondary outpatient care in 1998. Slovakia has a higher ratio of nurses per population (7.4 per 1,000 people in 1998) than other Eastern European countries. As of 1999, total health care expenditure was estimated at 6.5% of GDP.

In 1999, there were 58,137 births. Life expectancy in 2000 was 73 years and infant mortality was 8 per 1,000 live births. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 10.1 and 9.2 per 1,000 people. A Slovakian woman living through her childbearing years had an average of 1.3 children (2000). A large proportion of Slovakian women (74%) used some form of contraception in 1991. Immunization rates for children up to one year old in 1997 were impressively high: tuberculosis, 90%; diphtheria, pertussis, and tetanus, 98%; polio, 98%; and measles, 98%.

As of 1999, the number of people living with HIV/AIDS was estimated at 400 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.01 per 100 adults. Tuberculosis has been on the rise in Slovakia; there were 1,760 tuberculosis cases in 1994. The incidence of tuberculosis in 1999 was 28 per 100,000 population. In 1992, 43% of men and 26% of women older than 15 were smokers.

### 42 HOUSING

In 1992, the Slovak Association of Towns and Villages, comprised of some 2,000 towns, was engaged in recovering all housing units from former state administration authorities. As of 2001, there were about 1,884,846 dwelling units nationwide. Most of these were detached homes. In a 1999 report, there was an estimated housing deficit of 180,000 dwellings. The projected need for new housing was at about 24,000 housing units per year. The average rate of construction has been about 6,000 units per year.

### 43 EDUCATION

Slovakia has an estimated adult literacy rate of 99%. Education is compulsory for nine years, approximately up to the age of 15. Elementary education lasts for four years followed by eight years of secondary education, which is provided in general or specialized and technical schools. In 1997, primary schools enrolled 329,880 students and employed 16,820 teachers. Student-to-teacher ratio stood at 20 to 1. In the same year, secondary schools had 677,377 students and 54,694 teachers. There were 19 pupils per teacher at the primary level in 1999. In the same year, public expenditure on education was estimated at 4.3% of GDP.

Slovakia has 13 universities, with the oldest being Comenius (Komensky) University in Bratislava. The Pavel Josef Afarík University, founded in 1959, is in Košice. In 1997, 101,764 students were enrolled at the institutions of higher education; teaching staff totaled 9,849.

### 44 LIBRARIES AND MUSEUMS

The most important library in Slovakia is the Slovak National Library (4.4 million volumes), founded in 1863 and located at Martin. The State Scientific Library in Banská Bstrica (1926) holds almost two million volumes, and the Comenius University in Bratislava has the country's largest university collection of 2.2 million volumes. In 1997, Slovakia had 2,630 public library service branches holding a total of 19.4 million volumes. Slovakia has more than 50 museums. The Slovak National Gallery (1948), the Slovak National Museum (1924), the Natural History Museum (1948), and the History Museum (1924), are all in Bratislava. The State Gallery of Art is in Banská Bstrica. There are dozens of regional museums throughout the country.

### 45 MEDIA

In 1998, there were 1.9 million main line telephones in use throughout the country, with reports of 736,662 mobile cellular phones in use by 1999. There are three government boards appointed by a majority vote of Parliament to supervise radio and television broadcasting: The Slovak Television Council and the Slovak Radio Council establish broadcasting policy for state-owned television and radio. The Slovak Council for Radio and Television Broadcasting issues broadcast licenses for non-government groups and administers advertising laws and other regulations. In 1998, there were 15 AM and 78 FM radio stations. In 1995, there were 38 television stations, plus 864 repeaters. In 2000, there were about 965 radios and 407 television sets for every 1,000 people. The same year, there were about 137 personal computers in use for every 1,000 people, with 6 Internet service providers serving 700,000 users.

In 2002, there were 14 major daily newspapers, including (with average circulation figures): *Nový Cas* (*New Time*, 230,000), *Pravda* (*Truth*, 165,000), *Praca* (*Labor*, 80,000), and *SMENA* (a youth journal, 80,000). The daily sports newspaper *Sport* had a circulation of 85,000 in 2002. The two major Hungarian newspapers are the daily *Uj Szó* (*New Word*, 42,000 circulation) and the weekly *Szabad Ujság* (*Free Journal*, 40,000). There are also a number of government bulletins and small circulation publications printed by and for minority language groups.

### 46 ORGANIZATIONS

The Slovak Chamber of Commerce and Industry is located in Bratislava. There are professional associations for a number of occupations, including teaching and a number of medical professions. The Slovak Academy of Sciences promotes public interest, education, and research in various scientific fields. National youth organizations include the Association of Slovak Students, Civic Democratic Youth, YMCA/YWCA, and Slovak

Scouting. Kiwanis and Lion's Clubs have programs in the country. Women's organizations include the Alliance of Women in Slovakia. Greenpeace and the Red Cross have national chapters.

### 47 TOURISM, TRAVEL, AND RECREATION

Slovakia's outdoor tourist attractions include mountains (the most famous being the High and Low Tatras), forest, cave formations, and over 1,000 mineral and hot springs. In addition, tourists can visit ancient castles, monuments, chateaux, museums, and galleries. All visitors are required to have valid passports.

In 2000, 1,053,000 tourists arrived in Slovakia and spent an estimated \$432 million. There were 23,387 hotel rooms in Slovakia that year with 73,008 beds and an occupancy rate of 29%.

According to 2000 US government estimates, the cost of staying in Bratislava was \$130 per day. Estimated daily travel costs elsewhere in the country averaged \$126.

### 48 FAMOUS SLOVAKS

Ján Kollár (1793–1852), writer, poet, Slavist, and archaeologist, was a Slovak patriot who championed the Slav struggle against foreign oppression. Ludovít Stúr (1815–56) is the founder of the Slovak literary language and modern Slovak literature. Founder of scientific Slavic studies was Pavel Josef Safačrík (1795–1861), whose *Slavonic Antiquities* had great scholarly influence. Andrej Hlinka (1864–1938) led the Slovak Catholic autonomist movement. The greatest Slovak poet, Pavel Hviezdoslav (1849–1921), translated foreign poetry, refined the language, and contributed to Slovak awakening. The Robin Hood of the Slovaks, Juraj Jánošík (1688–1713), fought the Hungarians. Milan Rastislav Štefánik (1880–1919), military leader, astronomer, and ally of Tomáš Masaryk, represented the Slovaks in their struggle for liberty. Alexander Dubček (1921–92) was first secretary of the Czechoslovak Communist Party (1968–69). His attempt to increase civil liberties led to the invasion of Czechoslovakia by the Warsaw Pact in 1968. In 1989 he was elected the Federal Assembly's first speaker.

### 49 DEPENDENCIES

Slovakia has no territories or colonies.

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# SLOVENIA

Republic of Slovenia  
*Republika Slovenije*

**CAPITAL:** Ljubljana

**FLAG:** Equal horizontal bands of white (top), blue, and red with seal superimposed on upper hoist side.

**ANTHEM:** *Zive naj vsi narodi.* (The national anthem begins, "Let all nations live . . .")

**MONETARY UNIT:** The currency of Slovenia is the tolar (SLT), which consists of 100 stotinov. There are coins of 50 stotinov and 1, 2, and 5 tolar, and notes of 10, 20, 50, and 200 tolar. SLT1 = \$0.0047 (or \$1 = SLT212) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is in force.

**HOLIDAYS:** New Year, 1–2 January; Preeren Day, Day of Culture, 8 February; Resistance Day, 27 April; Labor Days, 1–2 May; National Statehood Day, 25 June; Assumption, 15 August; Reformation Day, 31 October; All Saints' Day, 1 November; Christmas Day, 25 December; Independence Day, 26 December. Movable holidays are Easter Sunday and Monday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Slovenia is located in central Europe. Slovenia is slightly larger than the state of New Jersey with a total area of 20,273 sq km (7,827 sq mi). Slovenia shares boundaries with Austria (north), Hungary (east), Croatia (south), and the Adriatic Sea and Italy (west), and has a total land boundary of 1,334 km (829 mi) and a coastline of 46.6 km (29 mi). Slovenia's capital city, Ljubljana, is located near the center of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Slovenia features a small coastal strip on the Adriatic, an alpine region adjacent to Italy, and mixed mountains and valleys with numerous rivers in the east.

Slovenia's natural resources include lignite coal, lead, zinc, mercury, uranium, and silver. Approximately 11% of Slovenia's land is arable.

## <sup>3</sup>CLIMATE

Slovenia's coastal climate is influenced by the Mediterranean Sea. Its interior climate ranges from mild to hot summers, with cold winters in the plateaus and valleys to the east. In Ljubljana, July's mean temperature is 20°C (68°F). The mean temperature in January is -1°C (30°F). Rainfall in the capital averages 139 cm (59 in) a year.

## <sup>4</sup>FLORA AND FAUNA

The region's climate has given Slovenia a wealth of diverse flora and fauna. Ferns, flowers, mosses, and common trees populate the landscape. There are subtropical plants along the Adriatic Sea. Wild animals include deer, brown bear, rabbit, fox, and wild boar. About half of Slovenia is mountainous; mainly, the mountains are located in the central and eastern part of the country. Farmers plant vineyards on the hillsides and raise livestock in the fertile lowlands of the country.

## <sup>5</sup>ENVIRONMENT

Slovenia's natural environment suffers from damage to forests by industrial pollutants, especially chemical and metallurgical plant emissions and the resulting acid rain. Water pollution is also a problem. The Sava River is polluted with domestic and industrial waste; heavy metals and toxic chemicals can be found in the coastal waters. The country is subject to flooding and earthquakes. As of 2001, 5.9% of Slovenia's total land area was protected. In the same year, 10 out of 75 mammal species and 3 out of 207 breeding bird species were threatened, as were 3 plant species. Threatened species include the Italian agile frog, slender-billed curlew, Beluga, Danube salmon, and the olm.

## <sup>6</sup>POPULATION

The population of Slovenia in 2003 was estimated by the United Nations at 1,984,000, which placed it as number 142 in population among the 193 nations of the world. In that year approximately 14% of the population was over 65 years of age, with another 16% of the population under 15 years of age. There were 95 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.11%, with the projected population for the year 2015 at 1,931,000. The population density in 2002 was 98 per sq km (255 per sq mi).

It was estimated by the Population Reference Bureau that 50% of the population lived in urban areas in 2001. The capital city, Ljubljana, had a population of 295,000 in that year. Maribor had a population of 108,122. According to the United Nations, the urban population growth rate for 2000–2005 was 0.3%.

## <sup>7</sup>MIGRATION

As of 1995, Slovenia was harboring 29,000 refugees from the former Yugoslav SFR. Of the 5,000 to 10,000 that remained in 1999, most had opted not to take Slovene citizenship during a six-month window of opportunity in 1991–92 and had been living in the country as stateless persons ever since. In 1999, Parliament passed legislation that offered these persons

permanent resident status; a six-week window for applications closed at the end of the year. The net migration rate in 2000 was 0.5 migrants per 1,000 population. The number of migrants living in Slovenia in that year was 51,000. The government views the migration levels as satisfactory.

## **8**ETHNIC GROUPS

In 1998, the population was 91% Slovene. Croats comprised 3%; Serbs made up 2%; Muslims accounted for 1%, and various other groups formed the remaining 3%.

## **9**LANGUAGES

Like Serbo-Croatian, Macedonian, and Bulgarian, Slovene is a language of the southern Slavic group. It is closest to Serbo-Croatian, but the two are not mutually intelligible. Slovene is written in the Roman alphabet and has the special letters č, š, and ž. The letters q, u, x, and y are missing. As of 2002, 91% of the populace spoke Slovene; 6% spoke Serbo-Croatian; and 3% used various other languages.

## **10**RELIGIONS

The former Socialist Republic of Slovenia, a member of the Yugoslav federation, became an independent nation in 1991. Though estimates vary, the 1991 census indicated that the largest denominational group is the Roman Catholic Church, at about 72% of the population. There is also a Slovenian Old Catholic Church and some Eastern Orthodox that make up about 2% of the population. Although Calvinism played an important role during the Reformation, the only well-established Protestant group is the Evangelical Lutheran Church of Slovenia, which accounts for 1% of the population. Muslims make up another 1.5%; atheists form 4.3%; 0.2% are agnostic, and 0.01% are Jewish.

## **11**TRANSPORTATION

Rail lines, emanating from Ljubljana, connect the capital to Kranj and Jesenice, Postojna and Novo Gorica, Celje and Maribor, and Nova Mesto before continuing to Austria, Italy, and Croatia. As of 2002, there were some 1,201 km (746 mi) of railway tracks. With over 150 passenger stations and 140 freight stations, almost every town in Slovenia can be reached by train. Slovenian Railways uses high-speed trains and container transports.

In 2002, Slovenia had 19,586 km (12,170 mi) of roads, of which 17,745 km (11,026 mi) were paved, including 249 km (154 mi) of expressways. Slovenia has two expressways: one connects Ljubljana, Postojna, and Razdrto with the coastal region; the other links Ljubljana with Kranj and the Gorenjska region in the northwest and with the Karawanken tunnel to Austria.

The principal marine port is Koper. Technically there is no merchant fleet, but Slovenian owners control 7 vessels (1,000 GRT or over), all registered under St. Vincent and the Grenadines (a flag of convenience).

Slovenia had 14 airports in 2001, six of which had paved runways. In 2001, 689,600 passengers were carried on scheduled domestic and international flights.

## **12**HISTORY

### **Origins and Middle Ages**

Slovenia is located in the central European area where Latin Germanic, Slavic, and Magyar people have come into contact with one another. The historical dynamics of these four groups have impacted the development of this small nation.

Until the 8th–9th centuries AD, Slavs used the same common Slavic language that was codified by St. Cyril and Methodius in their AD 863 translations of Holy Scriptures into the Slavic tongue. Essentially an agricultural people, the Slovenes settled

from around AD 550 in the eastern Alps and in the western Pannonian Plains. The ancestors of today's Slovenes developed their own form of political organization in which power was delegated to their rulers through an "electors" group of peasant leaders/soldiers (the "Kosezi"). Allies of the Bavarians against the Avars, whom they defeated in AD 743, the Carantania Slovenes came under control of the numerically stronger Bavarians and both were overtaken by the Franks in AD 745.

In 863, the Greek scholars Constantine (Cyril) and Methodius were sent to Moravia, having first developed an original alphabet (called "Glagolitic") and translated the necessary Holy Scriptures into the Slavic tongue of the time. The work of the two "Apostles of the Slavs" was opposed by the Frankish Bishops who accused them of teaching heresy and using a non-sacred language and script. Invited by Pope Nicholas I to Rome to explain their work, the brothers visited with the Slovene Prince Kocelj in 867 and took along some 50 young men to be instructed in the Slavic scriptures and liturgy that were competing with the traditionally "sacred" liturgical languages of Latin and Greek. Political events prevented the utilization of the Slavic language in Central European Churches with the exception of Croatia and Bosnia. However, the liturgy in Slavic spread among Balkan and Eastern Slavs.

Slovenes view the installation of the Dukes of Carinthia with great pride as the expression of a non-feudal, bottom-up delegation of authority—by the people's "electors" through a ceremony inspired by old Slavic egalitarian customs. All the people assembled would intone a Slovene hymn of praise—"Glory and praise to God Almighty, who created heaven and earth, for giving us and our land the Duke and master according to our will."

This ceremony lasted for 700 years with some feudal accretions and was conducted in the Slovenian language until the last one in 1414. The uniqueness of the Carinthian installation ceremony is confirmed by several sources, including medieval reports, the writing of Pope Pius II in 1509, and its recounting in Jean Bodin's *Treatise on Republican Government* (1576) as "unrivaled in the entire world." In fact, Thomas Jefferson's copy of Bodin's *Republic* contains Jefferson's own initials calling attention to the description of the Carinthian installation and therefore, to its conceptual impact on the writer of the American Declaration of Independence.

The eastward expansion of the Franks in the 9th century brought all Slovene lands under Frankish control. Carantania then lost its autonomy and, following the 955 victory of the Franks over the Hungarians, the Slovene lands were organized into separate frontier regions. This facilitated their colonization by German elements while inhibiting any effort at unifying the shrinking Slovene territories. Under the feudal system, various families of mostly Germanic nobility were granted fiefdoms over Slovene lands and competed among themselves bent on increasing their holdings.

The Bohemian King Premysl Otokar II was an exception and attempted to unite the Czech, Slovak, and Slovene lands in the second half of the 13th century. Otokar II acquired the Duchy of Austria in 1251, Styria in 1260, and Carinthia, Carniola, and Istria in 1269, thus laying the foundation for the future Austrian empire. However, Otokar II was defeated in 1278 by a Hapsburg-led coalition that conquered Styria and Austria by 1282. The Hapsburgs, of Swiss origin, grew steadily in power and by the 15th century became the leading Austrian feudal family in control of most Slovene lands.

Christianization and the feudal system supported the Germanization process and created a society divided into "haves" (German) and "have nots" (Slovene), which were further separated into the nobility/urban dwellers versus the Slovene peasants/serfs. The Slovenes were deprived of their original, egalitarian "Freemen" rights and subjected to harsh oppression



LOCATION: 46°15' N; 15°10' E. BOUNDARY LENGTHS: Total boundary lengths, 999 kilometers (621 miles); Austria 262 kilometers (163 miles); Croatia, 455 kilometers (283 miles); Italy, 199 kilometers (124 miles); Hungary, 83 kilometers (52 miles).

of economic, social, and political nature. The increasing demands imposed on the serfs due to the feudal lords' commitment in support of the fighting against the Turks and the suffering caused by Turkish invasions led to a series of insurrections by Slovene and Croat peasants in the 15th to 18th centuries, cruelly repressed by the feudal system.

### Reformation

The Reformation gave an impetus to the national identity process through the efforts of Protestant Slovenes to provide printed materials in the Slovenian language in support of the Reformation movement itself. Martin Luther's translation of the New Testament into German in 1521 encouraged translations into other vernaculars, including the Slovenian. Thus Primož Trubar, a Slovenian Protestant preacher and scholar, published the first *Catechism* in Slovenian in 1551 and, among other works, a smaller elementary grammar (*Abecedarium*) of the Slovenian language in 1552. These works were followed by the complete Slovenian translation of the Bible by Jurij Dalmatin in 1578, printed in 1584. The same year Adam Bohorič published, in Latin, the first comprehensive grammar of the Slovenian language which was also the first published grammar of any Slavic language. The first Slovenian publishing house (1575) and a

Jesuit College (1595) were established in Ljubljana, the central Slovenian city and between 1550 and 1600 over 50 books in Slovenian were published. In addition, Primož Trubar and his co-workers encouraged the opening of Slovenian elementary and high schools. This sudden explosion of literary activity built the foundation for the further development of literature in Slovenian and its use by the educated classes of Slovenes. The Catholic Counter-Reformation reacted to the spread of Protestantism very strongly within Catholic Austria, and slowed down the entire process until the Napoleonic period. Despite these efforts, important cultural institutions were established, such as an Academy of Arts and Sciences (1673) and the Philharmonic Society in 1701 (perhaps the oldest in Europe).

The Jesuits, heavily involved in the Counter-Reformation, had to use religious literature and songs in the Slovene language, but generally Latin was used as the main language in Jesuit schools. However, the first Catholic books in Slovenian were issued in 1615 to assist priests in the reading of Gospel passages and delivery of sermons. The Protestant books in Slovenian were used for such purposes, and they thus assisted in the further development of a standard literary Slovenian. Since Primož Trubar used his dialect from the Carniola region, it heavily influenced the literary standard. From the late 17th and through

the 18th century the Slovenes continued their divided existence under Austrian control.

Standing over trade routes connecting the German/Austrian hinterland to the Adriatic Sea and the Italian plains eastward into the Balkan region, the Slovenes partook of the benefits from such trade in terms of both economic and cultural enrichment. Thus by the end of the 18th century, a significant change occurred in the urban centers where an educated Slovene middle class came into existence. Deeply rooted in the Slovene peasantry, this element ceased to assimilate into the Germanized mainstream and began to assert its own cultural/national identity. Many of their sons were educated in German, French, and Italian universities and thus exposed to the influence of the Enlightenment. Such a person was, for instance, Baron Ziga Zois (1749–1819), an industrialist, landowner, and linguist who became the patron of the Slovene literary movement. When the ideas of the French Revolution spread through Europe and the Napoleonic conquest reached the Slovenes, they were ready to embrace them.

During the reign of Maria Teresa (1740–80) and Joseph II (1780–90), the influence of Jansenism—the emancipation of serfs, the introduction of public schools (in German), equality of religions, closing of monasteries not involved in education or tending to the sick—weakened the hold of the nobility. On the other hand, the stronger Germanization emphasis generated resistance to it from an awakening Slovene national consciousness and the publication of Slovene nonreligious works, such as Marko Pohlin's *Abecedika* (1765), a *Carniolan Grammar* (1783) with explanations in German, and other educational works in Slovenian, which include a Slovenian-German-Latin dictionary (1781). Pohlin's theory of metrics and poetics became the foundation of secular poetry in Slovenian, which reached its zenith only 50 years later with France Prešeren (1800–49), still considered the greatest Slovene poet. Just prior to the short Napoleonic occupation of Slovenia, the first Slovenian newspaper was published in 1797 by Valentin Vodnik (1758–1819), a very popular poet and grammarian. The first drama in Slovenian appeared in 1789 by Anton Tomaž Linhart (1756–95), playwright and historian of Slovenes and South Slavs. Both authors were members of Baron Zois' circle.

### Napoleon and the Spring of Nations

When Napoleon defeated Austria and established his Illyrian Provinces (1809–13), comprising the southern half of the Slovenian lands, parts of Croatia, and Dalmatia all the way to Dubrovnik with Ljubljana as the capital, the Slovene language was encouraged in the schools and also used, along with French, as an official language in order to communicate with the Slovene population. The four-year French occupation served to reinforce the national awakening of the Slovenes and other nations that had been submerged through the long feudal era of the Austrian Empire. Austria, however, regained the Illyrian Provinces in 1813 and reestablished its direct control over the Slovene lands.

The 1848 "spring of nations" brought about various demands for national freedom of Slovenes and other Slavic nations of Austria. An important role was played by Jernej Kopitar with his influence as librarian/censor in the Imperial Library in Vienna, as the developer of Slavic studies in Austria, as the mentor to Vuk Karadžić (one of the founders of the contemporary Serbo-Croatian language standard), as the advocate of Austro-Slavism (a state for all Slavs of Austria), and as author of the first modern Slovenian grammar in 1808. In mid-May 1848, the "United Slovenia" manifesto demanded that the Austrian Emperor establish a Kingdom of Slovenia with its own parliament, consisting of the then separate historical regions of Carniola, Carinthia, Styria, and the Littoral, with Slovenian as its official language. This kingdom would remain a part of Austria, but not of the German Empire. While other nations based their demands on the "historical statehood" principle, the Slovenian demands

were based on the principle of national self-determination some 70 years before American President Woodrow Wilson would embrace the principle in his "Fourteen Points."

Matija Kavčič, one of 14 Slovenian deputies elected to the 1848–49 Austrian parliament, proposed a plan of turning the Austrian Empire into a federation of 14 national states that would completely do away with the system of historic regions based on the old feudal system. At the 1848 Slavic Congress in Prague, the Slovenian delegates also demanded the establishment of the Slovenian University in Ljubljana. A map of a United Slovenia was designed by Peter Kozler based on then available ethnic data. It was confiscated by Austrian authorities, and Kozler was accused of treason in 1852 but was later released for insufficient evidence. The revolts of 1848 were repressed after a few years, and absolutistic regimes kept control on any movements in support of national rights. However, recognition was given to equal rights of the Slovenian language in principle, while denied in practice by the German/Hungarian element that considered Slovenian the language of servants and peasants. Even the "minimalist" Maribor program of 1865 (a common assembly of deputies from the historical provinces to discuss mutual problems) was fiercely opposed by most Austrians that supported the Pan-German plan of a unified German nation from the Baltic to the Adriatic seas. The Slovenian nation was blocking the Pan-German plan simply by being located between the Adriatic Sea (Trieste) and the German/Austrian Alpine areas; therefore, any concessions had to be refused in order to speed up its total assimilation. Hitler's World War II plan to "cleanse" the Slovenians was an accelerated approach to the same end by use of extreme violence.

### Toward "Yugoslavism"

In 1867, the German and Hungarian majorities agreed to the reorganization of the state into a "Dualistic" Austro-Hungarian Monarchy in order to be better able to control the minority elements in each half of the empire. The same year, in view of such intransigence, the Slovenes reverted back to their "maximalist" demand of a "United Slovenia" (1867 Ljubljana Manifesto) and initiated a series of mass political meetings, called "Tabori," after the Czech model. Their motto became "Umreti nočemo!" ("We refuse to die!"), and a movement was initiated to bring about a cultural/political coalition of Slovenes, Croats, and Serbs of Austro-Hungary in order to more successfully defend themselves from the increasing efforts of Germanization/Magyarization. At the same time, Slovenes, Croats, and Serbs followed with great interest several movements of national liberation and unification, such as those in Italy, Germany, Greece, and Serbia, and drew from them much inspiration. While Austria lost its northern Italian provinces to the Italian "Risorgimento," it gained, on the other hand, Bosnia and Herzegovina through occupation (1878) and annexation (1908). These actions increased the interest of Slovenes, Croats, and Serbs of Austro-Hungary in a "Trialistic" arrangement that would allow the South Slavic groups ("Yugoslavs") to form their own joint (and "Third") unit within Austro-Hungary. A federalist solution, they believed, would make possible the survival of a country to which they had been loyal subjects for many centuries. Crown Prince Ferdinand supported this approach, called "The United States of greater Austria" by his advisers, also because it would remove the attraction of a Greater Serbia. But the German leadership's sense of its own superiority and consequent expansionist goals prevented any compromise and led to two world wars.

### World War I and Royal Yugoslavia

Unable to achieve their maximalist goals, the Slovenes concentrated their effort at the micro-level and made tremendous strides prior to World War I in introducing education in

Slovenian, organizing literary and reading rooms in every town, participating in economic development, upgrading their agriculture, organizing cultural societies and political parties, such as the Catholic People's Party in 1892 and the Liberal Party in 1894, and participating in the Socialist movement of the 1890s. World War I brought about the dissolution of centuries-old ties between the Slovenes and the Austrian Monarchy and the Croats/Serbs with the Hungarian Crown. Toward the end of the war, on 12 August 1918, the National Council for Slovenian Lands was formed in Ljubljana. On 12 October 1918, the National Council for all Slavs of former Austro-Hungary was founded in Zagreb, Croatia, and was chaired by Msgr. Anton Korošec, head of the Slovenian People's Party. This Council proclaimed on 29 October 1918 the separation of the South Slavs from Austro-Hungary and the formation of a new state of Slovenes, Croats, and Serbs.

A National Government for Slovenia was established in Ljubljana. The Zagreb Council intended to negotiate a Federal Union with the Kingdom of Serbia that would preserve the respective national autonomies of the Slovenes, Croats, and Serbs. Msgr. Korošec had negotiated a similar agreement in Geneva with Nikola Pašić, his Serbian counterpart, but a new Serbian government reneged on it. There was no time for further negotiations due to the Italian occupation of much Slovenian and Croatian territory and only Serbia, a victor state, could resist Italy. Thus, a delegation of the Zagreb Council submitted to Serbia a declaration expressing the will to unite with The Kingdom of Serbia. At that time, there were no conditions presented or demand made regarding the type of union, and Serbia immediately accepted the proposed unification under its strongly centralized government; a unitary "Kingdom of Serbs, Croats, and Slovenes" was declared on 1 December 1918. Because of the absence of an initial compromise between the Unitarists and Federalists, what became Yugoslavia never gained a solid consensual foundation. Serbs were winners and viewed their expansion as liberation of their Slavic brethren from Austria-Hungary, as compensation for their tremendous war sacrifices, and as the realization of their "Greater Serbia" goal. Slovenes and Croats, while freed from the Austro-Hungarian domination, were nevertheless the losers in terms of their desired political/cultural autonomy. In addition, they suffered painful territorial losses to Italy (some 700,000 Slovenes and Croats were denied any national rights by Fascist Italy and subjected to all kinds of persecutions) and to Austria (a similar fate for some 100,000 Slovenes left within Austria in the Carinthia region).

After 10 years of a contentious parliamentary system that ended in the murder of Croatian deputies and their leader Stjepan Radić, King Alexander abrogated the 1921 constitution, dissolved the parliament and political parties, took over power directly, and renamed the country "Yugoslavia." He abolished the 33 administrative departments that had replaced the historic political/national regions in favor of administrative areas named mostly after rivers. A new policy was initiated with the goal of creating a single "Yugoslav" nation out of the three "Tribes" of Serbs, Croats, and Slovenes. But in practice this policy meant the King's Serbian hegemony over the rest of the nations. The reaction was intense, and King Alexander himself fell victim of Croat-Ustaša and Macedonian terrorists and died in Marseilles in 1934. A regency ruled Yugoslavia, headed by Alexander's cousin, Prince Paul, who managed to reach an agreement in 1939 with the Croats. An autonomous Croatian "Banovina" headed by "Ban" Ivan Subašić was established, including most Croatian lands outside of the Bosnia and Herzegovina area. Strong opposition developed among Serbs because they viewed the Croatian Banovina as a privilege for Croats while Serbs were split among six old administrative units with a large Serbian population left inside the Croatian Banovina itself. Still, there might have been a chance for further similar agreements that

would have satisfied the Serbs and Slovenes. But there was no time left—Hitler and his allies (Italy, Hungary, Bulgaria) attacked Yugoslavia on 6 April 1941, after a coup on 27 March 1941 had deposed Prince Paul's government, which had yielded to Hitler's pressures on 25 March. Thus the first Yugoslavia, born out of the distress of World War I, had not had time to consolidate and work out its problems in a mere 23 years and was then dismembered by its aggressors. Still, the first Yugoslavia allowed the Slovenes a chance for fuller development of their cultural, economic, and political life, in greater freedom and relative independence for the first time in modern times.

## World War II

Slovenia was divided in 1941 among Germany, Italy, and Hungary. Germany annexed northern Slovenia, mobilized its men into the German army, interned, expelled, or killed most of the Slovenian leaders, and removed to labor camps the populations of entire areas, repopulating them with Germans. Italy annexed southern Slovenia but did not mobilize its men. In both areas, particularly the Italian, resistance movements were initiated by both nationalist groups and by Communist-dominated Partisans, the latter particularly after Hitler's attack on the Soviet Union on 22 June 1941. The partisans claimed monopoly of the resistance leadership and dealt cruelly with anyone that dared to oppose their intended power grab. Spontaneous resistance to the Partisans by the non-Communist Slovenian peasantry led to a bloody civil war in Slovenia under foreign occupiers, who encouraged the bloodshed. The resistance movement led by General Draža Mihajlović, appointed Minister of War of the Yugoslav Government in exile, was handicapped by the exile government's lack of unity and clear purpose (mostly due to the fact that the Serbian side had reneged on the 1939 agreement on Croatia). On the other hand, Winston Churchill, convinced by rather one-sided reports that Mihajlović was "collaborating" with the Germans while the Partisans under Marshal Tito were the ones "who killed more Germans," decided to recognize Tito as the only legitimate Yugoslav resistance. Though aware of Tito's communist allegiance to Stalin, Churchill threw his support to Tito, and forced the Yugoslav government-in-exile into a coalition government with Tito, who had no intention of keeping the agreement and, in fact, would have fought against an Allied landing in Yugoslavia along with the Germans.

When Soviet armies, accompanied by Tito, entered Yugoslavia from Romania and Bulgaria in the fall of 1944, military units and civilians that had opposed the Partisans retreated to Austria or Italy. Among them were the Cetnik units of Draža Mihajlović and "homeguards" from Serbia, Croatia, and Slovenia that had been under German control but were pro-Allies in their convictions and hopes. Also in retreat were the units of the Croatian Ustaša that had collaborated with Italy and Germany in order to achieve (and control) an "independent" greater Croatia and, in the process, had committed terrible and large-scale massacres of Serbs, Jews, Gypsies, and others who opposed them. Serbs and Partisans counteracted, and a fratricidal civil war raged over Yugoslavia. After the end of the war, the Communist-led forces took control of Slovenia and Yugoslavia and instituted a violent dictatorship that committed systematic crimes and human rights violations on an unexpectedly large scale. Thousands upon thousands of their former opponents that were returned, unaware, from Austria by British military authorities were tortured and massacred by Partisan executioners.

## Communist Yugoslavia

Such was the background for the formation of the second Yugoslavia as a Federative People's Republic of five nations (Slovenes, Croats, Serbs, Macedonians, Montenegrins) with their individual republics and Bosnia and Herzegovina as a buffer area with its mix of Serb, Muslim, and Croat populations. The



problem of large Hungarian and Muslim Albanian populations in Serbia was solved by creating for them the autonomous region of Vojvodina (Hungarian minority) and Kosovo (Muslim Albanian majority) that assured their political and cultural development. Tito attempted a balancing act to satisfy most of the nationality issues that were carried over unresolved from the first Yugoslavia, but failed to satisfy anyone.

Compared to pre-1941 Yugoslavia where Serbs enjoyed a controlling role, the numerically stronger Serbs had lost both the Macedonian area they considered “Southern Serbia” and the opportunity to incorporate Montenegro into Serbia, as well as losing direct control over the Hungarian minority in Vojvodina and the Muslim Albanians of Kosovo, viewed as the cradle of the Serbian nation since the Middle Ages. They further were not able to incorporate into Serbia the large Serbian populated areas of Bosnia and had not obtained an autonomous regions for the large minority of Serbian population within the Croatian Republic. The Croats, while gaining back the Medjumurje area from Hungary and from Italy, the cities of Rijeka (Fiume), Zadar (Zara), some Dalmatian islands, and the Istrian Peninsula had, on the other hand, lost other areas. These included the Srem area to Serbia, and also Bosnia and Herzegovina, which had been part of the World War II “independent” Croatian state under the Ustaša leadership.

In addition, the Croats were confronted with a deeply resentful Serbian minority that became ever more pervasive in public administrative and security positions. The Slovenes had regained the Prekmurje enclave from Hungary and most of the Slovenian lands that had been taken over by Italy following World War I (Julian region and Northern Istria), except for the “Venetian Slovenia” area, the Gorizia area, and the port city of Trieste. The latter was initially part of the UN protected “Free Territory of Trieste,” split in 1954 between Italy and Yugoslavia with Trieste itself given to Italy. Nor were the Slovenian claims to the southern Carinthia area of Austria satisfied. The loss of Trieste was a bitter pill for the Slovenes and many blamed it on the fact that Tito’s Yugoslavia was, initially, Stalin’s advance threat to Western Europe, thus making the Allies more supportive of Italy.

The official position of the Marxist Yugoslav regime was that national rivalries and conflicting interests would gradually diminish through their sublimation into a new Socialist order. Without capitalism, nationalism was supposed to wither away. Therefore, in the name of their “unity and brotherhood” motto, any nationalistic expression of concern was prohibited and repressed by the dictatorial and centralized regime of the “League of Yugoslav Communists” acting through the “Socialist Alliance” as its mass front organization.

After a short post-war “coalition” government period, the elections of 11 November 1945, boycotted by the non-communist “coalition” parties, gave the Communist-led People’s Front 90% of the vote. A Constituent Assembly met on 29 November, abolishing the monarchy and establishing the Federative People’s Republic of Yugoslavia. In January 1946 a new constitution was adopted, based on the 1936 Soviet constitution. The Stalin-engineered expulsion of Yugoslavia from the Soviet-dominated Cominform Group in 1948 was actually a blessing for Yugoslavia after its leadership was able to survive Stalin’s pressures. Survival had to be justified, both practically and in theory, by developing a “Road to Socialism” based on Yugoslavia’s own circumstances. This new “road map” evolved rather quickly in response to some of Stalin’s accusations and Yugoslavia’s need to perform a balancing act between the North Atlantic Treaty Organization (NATO) alliance and the Soviet bloc. Tito quickly nationalized the economy through a policy of forced industrialization, to be supported by the collectivization of the agriculture.

The agricultural reform of 1945–46 (limited private ownership of a maximum of 35 hectares/85 acres, and a limited free market

after the initial forced delivery of quotas to the state at very low prices) had to be abandoned because of the strong resistance by the peasants. The actual collectivization efforts were initiated in 1949 using welfare benefits and lower taxes as incentives along with direct coercion. But collectivization had to be abandoned by 1958 simply because its inefficiency and low productivity could not support the concentrated effort of industrial development.

By the 1950s Yugoslavia had initiated the development of its internal trademark: self-management of enterprises through workers councils and local decision-making as the road to Marx’s “withering away of the state.” The second five-year plan (1957–61), as opposed to the failed first one (1947–51), was completed in four years by relying on the well-established self-management system. Economic targets were set from the local to the republic level and then coordinated by a Federal Planning Institute to meet an overall national economic strategy. This system supported a period of very rapid industrial growth in the 1950s from a very low base. But a high consumption rate encouraged a volume of imports far in excess of exports, largely financed by foreign loans. In addition, inefficient and low productivity industries were kept in place through public subsidies, cheap credit, and other artificial measures that led to a serious crisis by 1961.

Reforms were necessary and, by 1965, “market socialism” was introduced with laws that abolished most price controls and halved import duties while withdrawing export subsidies. After necessary amounts were left with the earning enterprise, the rest of the earned foreign currencies were deposited with the national bank and used by the state, other enterprises, or were used to assist less-developed areas. Councils were given more decision-making power in investing their earnings, and they also tended to vote for higher salaries in order to meet steep increases in the cost of living. Unemployment grew rapidly even though “political factories” were still subsidized. The government thus relaxed its restrictions to allow labor migration, particularly to West Germany where workers were needed for its thriving economy. Foreign investment was encouraged up to 49% in joint enterprises, and barriers to the movement of people and exchange of ideas were largely removed.

The role of trade unions continued to be one of transmission of instructions from government to workers, allocation of perks along with the education/training of workers, monitoring legislation, and overall protection of the self-management system. Strikes were legally neither allowed nor forbidden, but until the 1958 miners strike in Trbovlje, Slovenia, were not publicly acknowledged and were suppressed. After 1958 strikes were tolerated as an indication of problems to be resolved. Unions, however, did not initiate strikes but were expected to convince workers to go back to work.

Having survived its expulsion from the Cominform in 1948 and Stalin’s attempts to take control, Yugoslavia began to develop a foreign policy independent of the Soviet Union. By mid-1949 Yugoslavia withdrew its support from the Greek Communists in their civil war against the then-Royalist government. In October 1949, Yugoslavia was elected to one of the non-permanent seats on the UN Security Council and openly condemned North Korea’s aggression towards South Korea. Following the “rapprochement” opening with the Soviet Union, initiated by Nikita Khrushchev and his 1956 denunciation of Stalin, Tito intensified his work on developing the movement of non-aligned “third world” nations as Yugoslavia’s external trademark in cooperation with Nehru of India, Nasser of Egypt, and others. With the September 1961 Belgrade summit conference of non-aligned nations, Tito became the recognized leader of the movement. The non-aligned position served Tito’s Yugoslavia well by allowing Tito to draw on economic and political support from the Western powers while neutralizing any aggression from the Soviet bloc. While Tito had acquiesced, reluctantly, to the 1956 Soviet invasion of Hungary for fear of

chaos and any liberalizing impact on Yugoslavia, he condemned the Soviet invasion of Dubček's Czechoslovakia in 1968, as did Romania's Ceausescu, both fearing their countries might be the next in line for "corrective" action by the Red Army and the Warsaw Pact. Just before his death on 4 May 1980, Tito also condemned the Soviet invasion of Afghanistan. Yugoslavia actively participated in the 1975 Helsinki Conference and agreements and the first 1977–78 review conference that took place in Belgrade, even though Yugoslavia's one-party Communist regime perpetrated and condoned numerous human rights violations. Overall, in the 1970s–80s Yugoslavia maintained fairly good relations with its neighboring states by playing down or solving pending disputes such as the Trieste issue with Italy in 1975, and developing cooperative projects and increased trade.

Compared to the other republics of the Federative People's Republic of Yugoslavia, the Republic of Slovenia had several advantages. It was 95% homogeneous. The Slovenes had the highest level of literacy. Their pre-war economy was the most advanced and so was their agriculture, which was based on an extensive network of peasant cooperatives and savings and loans institutions developed as a primary initiative of the Slovenian People's Party ("clerical"). Though ravaged by the war, occupation, resistance and civil war losses, and preoccupied with carrying out the elimination of all actual and potential opposition, the Communist government faced the double task of building its Socialist economy while rebuilding the country. As an integral part of the Yugoslav federation, Slovenia was, naturally, affected by Yugoslavia's internal and external political developments. The main problems facing communist Yugoslavia/Slovenia were essentially the same as the unresolved ones under Royalist Yugoslavia. As the "Royal Yugoslavism" had failed in its assimilative efforts, so did the "Socialist Yugoslavism" fail to overcome the forces of nationalism. In the case of Slovenia there were several key factors in the continued attraction to its national identity: more than a thousand years of historical development; a location within Central Europe (not part of the Balkan area) and related identification with Western European civilization; the Catholic religion with the traditional role of Catholic priests (even under the persecutions by the Communist regime); the most developed and productive economy with a standard of living far superior to most other areas of the Yugoslav Federation; and finally, the increased political and economic autonomy enjoyed by the Republic after the 1974 constitution, particularly following Tito's death in 1980. Tito's motto of "unity and brotherhood" was replaced by "freedom and democracy" to be achieved through either a confederative rearrangement of Yugoslavia or by complete independence.

In December 1964, the eighth Congress of the League of Communists of Yugoslavia (LCY) acknowledged that ethnic prejudice and antagonisms existed in socialist Yugoslavia and went on record against the position that Yugoslavia's nations had become obsolete and were disintegrating into a socialist "Yugoslavism." Thus the republics, based on individual nations, became bastions of a strong Federalism that advocated the devolution and decentralization of authority from the federal to the republic level. "Yugoslav Socialist Patriotism" was at times defined as a deep feeling for both one's own national identity and for the socialist self-management of Yugoslavia. Economic reforms were the other focus of the Eighth LCY Congress, led by Croatia and Slovenia with emphasis on efficiencies and local economic development decisions with profit criteria as their basis. The "liberal" bloc (Slovenia, Croatia, Macedonia, Vojvodina) prevailed over the "conservative" group and the reforms of 1965 did away with central investment planning and "political factories." The positions of the two blocs hardened into a national-liberal coalition that viewed the conservative, centralist group led by Serbia as the "Greater Serbian" attempt at

majority domination. The devolution of power in economic decision-making spearheaded by the Slovenes assisted in the "federalization" of the League of Communists of Yugoslavia as a league of "quasi-sovereign" republican parties. Under strong prodding from the Croats, the party agreed in 1970 to the principle of unanimity for decision-making that, in practice, meant a veto power for each republic. However, the concentration of economic resources in Serbian hands continued with Belgrade banks controlling half of total credits and some 80% of foreign credits. This was also combined with the fear of Serbian political and cultural domination, particularly with respect to Croatian language sensitivities, which had been aroused by the use of the Serbian version of Serbo-Croatian as the norm, with the Croatian version as a deviation. The debates over the reforms of the 1960s led to a closer scrutiny, not only of the economic system, but also of the decision-making process at the republic and federal levels, particularly the investment of funds to less developed areas that Slovenia and Croatia felt were very poorly managed, if not squandered. Other issues fueled acrimony between individual nations, such as the 1967 Declaration in Zagreb claiming a Croatian linguistic and literary tradition separate from the Serbian one, thus undermining the validity of the Serbo-Croatian language. Also, Kosovo Albanians and Montenegrins, along with Slovenes and Croats, began to assert their national rights as superior to the Federation ones.

The language controversy exacerbated the economic and political tensions between Serbs and Croats, which spilled into the easily inflamed area of ethnic confrontations. To the conservative centralists the devolution of power to the republic level meant the subordination of the broad "Yugoslav" and "Socialist" interests to the narrow "nationalist" interest of republic national majorities. With the Croat League of Communists taking the liberal position in 1970, nationalism was rehabilitated. Thus the "Croatian Spring" bloomed and impacted all the other republics of Yugoslavia. Meanwhile, through a series of 1967–68 constitutional amendments that had limited federal power in favor of the republics and autonomous provinces, the Federal Government came to be seen by liberals more as an inter-republican problem-solving mechanism bordering on a confederative arrangement. A network of inter-republican committees established by mid-1971 proved to be very efficient at resolving a large number of difficult issues in a short time. The coalition of liberals and nationalists in Croatia also generated sharp condemnation in Serbia whose own brand of nationalism grew stronger, but as part of a conservative/centralist alliance. Thus the liberal/federalist versus conservative/centralist opposition became entangled in the rising nationalism within each opposing bloc. The situation in Croatia and Serbia was particularly difficult because of their minorities issues—Serbian in Croatia and Hungarian/Albanian in Serbia.

Serbs in Croatia sided with the Croat conservatives and sought a constitutional amendment guaranteeing their own national identity and rights and, in the process, challenged the sovereignty of the Croatian nation and state as well as the right to self-determination, including the right to secession. The conservatives won and the amendment declared that "the Socialist Republic of Croatia (was) the national state of the Croatian nation, the state of the Serbian nation in Croatia, and the state of the nationalities inhabiting it."

### Slovenian "Spring"

Meanwhile, Slovenia, not burdened by large minorities, developed a similar liberal and nationalist direction along with Croatia. This fostered an incipient separatist sentiment opposed by both the liberal and conservative party wings. Led by Stane Kavčič, head of the Slovenian government, the liberal wing gained as much local political latitude as possible from the Federal level during the early 1970s "Slovenian Spring." By the

summer of 1971, the Serbian party leadership was pressuring President Tito to put an end to the “dangerous” development of Croatian nationalism. While Tito wavered because of his support for the balancing system of autonomous republic units, the situation quickly reached critical proportions.

Croat nationalists, complaining about discrimination against Croats in Bosnia and Herzegovina, demanded the incorporation of Western Herzegovina into Croatia. Serbia countered by claiming Southeastern Herzegovina for itself. Croats also advanced claims to a larger share of their foreign currency earnings, to the issuance of their own currency, the creation of their own national bank that would directly negotiate foreign loans, the printing of Croatian postage stamps, the creation of a Croatian army, and recognition of the Croatian *Sabor* (assembly) as the highest Croatian political body, and, finally, to Croatian secession and complete independence. Confronted with such intensive agitation, the liberal Croatian party leadership could not back down and did not try to restrain the maximalist public demands nor the widespread university students’ strike of November 1971. This situation caused a loss of support from the liberal party wings of Slovenia and even Macedonia. At this point Tito intervened, condemned the Croatian liberal leadership on 1 December 1971, and supported the conservative wing. The liberal leadership group resigned on 12 December 1971. When Croatian students demonstrated and demanded an independent Croatia, the Yugoslav army was ready to move in if necessary. A wholesale purge of the party liberals followed with tens of thousands expelled, key functionaries lost their positions, several thousand were imprisoned (including Franjo Tuđman who later became President in independent Croatia), and leading Croatian nationalist organizations and their publications were closed.

On 8 May 1972, the Croatian party also expelled its liberal wing leaders and the purge of nationalists continued through 1973 in Croatia, as well as in Slovenia and Macedonia. However, the issues and sentiments raised during the “Slovene and Croat Springs” of 1969–71 did not disappear. Tito and the conservatives were forced to satisfy nominally some demands. The 1974 constitution was an attempt to resolve the strained inter-republican relations as each republic pursued its own interests over and above an overall “Yugoslav” interest. The repression of liberal-nationalist Croats was accompanied by the growing influence of the Serbian element in the Croatian Party (24% in 1980) and police force (majority) that contributed to the continued persecution and imprisonments of Croatian nationalists into the 1980s.

### Yugoslavia—House Divided

In Slovenia, developments took a direction of their own. The purge of the nationalists took place as in Croatia but on a lesser scale, and after a decade or so, nationalism was revived through the development of grassroots movements in the arts, music, peace, and environmental concerns. Activism was particularly strong among young people, who shrewdly used the regime-supported youth organizations, youth periodicals—such as *Mladina* (in Ljubljana) and *Katedra* (in Maribor)—and an independent student radio station. The journal *Nova Revija* published a series of articles focusing on problems confronting the Slovenian nation in February 1987; these included such varied topics as the status of the Slovenian language, the role of the Communist Party, the multi-party system, and independence. The *Nova Revija* was in reality a Slovenian national manifesto that, along with yearly public opinion polls showing ever higher support for Slovenian independence, indicated a definite mood toward secession. In this charged atmosphere, the Yugoslav army committed two actions that led the Slovenes to the path of actual separation from Yugoslavia. In March 1988, the army’s Military Council submitted a confidential report to the Federal Presidency claiming that Slovenia was planning a counter revolution and

calling for repressive measures against liberals and a *coup d’état*. An army document delineating such actions was delivered by an army sergeant to the journal *Mladina*. But, before it could be published, *Mladina*’s editor and two journalists were arrested by the army on 31 March 1988. Meanwhile, the strong intervention of the Slovenian political leadership succeeded in stopping any army action. But the four men involved in the affair were put on trial by the Yugoslav army.

The second army *faux pas* was to hold the trial in Ljubljana, capital of Slovenia, and to conduct it in the Serbo-Croatian language, an action declared constitutional by the Yugoslav Presidency, claiming that Slovenian law could not be applied to the Yugoslav army. This trial brought about complete unity among Slovenians in opposition to the Yugoslav army and what it represented, and the four individuals on trial became overnight heroes. One of them was Janez Janša who had written articles in *Mladina* critical of the Yugoslav army and was the head of the Slovenian pacifist movement and President of the Slovenian Youth Organization. (Ironically, three years later Janša led the successful defense of Slovenia against the Yugoslav army and became the first Minister of Defense of independent Slovenia.) The four men were found guilty and sentenced to jail terms from four years (Janša) to five months. The total mobilization of Slovenia against the military trials led to the formation of the first non-Communist political organizations and political parties. In a time of perceived national crisis, both the Communist and non-Communist leadership found it possible to work closely together. But from that time on the liberal/nationalist vs. conservative/centralist positions hardened in Yugoslavia and no amount of negotiation at the federal presidency level regarding a possible confederal solution could hold Yugoslavia together any longer.

Since 1986, work had been done on amendments to the 1974 constitution that, when submitted in 1987, created a furor, particularly in Slovenia, due to the proposed creation of a unified legal system, the establishment of central control over the means of transportation and communication, centralization of the economy into a unified market, and the granting of more control to Serbia over its autonomous provinces of Kosovo and Vojvodina. This all came at the expense of the individual republics. A recentralization of the League of Communists was also recommended but opposed by liberal/nationalist groups. Serbia’s President Slobodan Milošević also proposed changes to the bicameral Federal Skupština (Assembly) by replacing it with a tricameral one where deputies would no longer be elected by their republican assemblies but through a “one person, one vote” national system. Slovenia, Croatia, and Bosnia and Herzegovina strongly opposed the change as they opposed the additional Chamber of Associated Labor that would have increased the Federal role in the economy. The debates over the recentralizing amendments caused an even greater focus in Slovenia and Croatia on the concept of a confederative structure based on self-determination by “sovereign” states and a multiparty democratic system as the only one that could maintain some semblance of a “Yugoslav” state.

By 1989 and the period following the Serbian assertion of control in the Kosovo and Vojvodina provinces, as well as in the republic of Montenegro, relations between Slovenia and Serbia reached a crisis point: Serbian President Milošević attempted to orchestrate mass demonstrations by Serbs in Ljubljana, the capital city of Slovenia, and the Slovenian leadership vetoed it. Then Serbs started to boycott Slovenian products, to withdraw their savings from Slovenian banks, and to terminate economic cooperation and trade with Slovenia. Serbian President Milošević’s tactics were extremely distasteful to the Slovenians and the use of force against the Albanian population of the Kosovo province worried the Slovenes (and Croats) about the possible use of force by Serbia against Slovenia itself. The tensions with Serbia convinced the Slovenian leadership of the

need to take necessary protective measures. In September 1989, draft amendments to the constitution of Slovenia were published that included the right to secession, and the sole right of the Slovenian legislature to introduce martial law. The Yugoslav army particularly needed the amendment granting control over deployment of armed forces in Slovenia, since the Yugoslav army, controlled by a mostly Serbian/Montenegrin officer corps dedicated to the preservation of a communist system, had a self-interest in preserving the source of their own budgetary allocations of some 51% of the Yugoslav federal budget.

A last attempt at salvaging Yugoslavia was to be made as the extraordinary Congress of the League of Communists of Yugoslavia convened in January 1990 to review proposed reforms such as free multi-party elections, and freedom of speech. The Slovenian delegation attempted to broaden the spectrum of reforms but was rebuffed and walked out on 23 January 1990, pulling out of the Yugoslav League. The Slovenian Communists then renamed their party the Party for Democratic Renewal. The political debate in Slovenia intensified and some nineteen parties were formed by early 1990. On 10 April 1990 the first free elections since before World War II were held in Slovenia, where there still was a three-chamber Assembly: political affairs, associated labor, and territorial communities. A coalition of six newly formed democratic parties, called *Demos*, won 55% of the votes, with the remainder going to the Party for Democratic Renewal, the former Communists (17%), the Socialist Party (5%), and the Liberal Democratic Party—heir to the Slovenia Youth Organization (15%). The *Demos* coalition organized the first freely elected Slovenian government of the post-Communist era with Dr. Lojze Peterle as the prime minister.

Milan Kucan, former head of the League of Communists of Slovenia, was elected president with 54% of the vote in recognition of his efforts to effect a bloodless transfer of power from a monopoly by the Communist party to a free multi-party system and his standing up to the recentralizing attempts by Serbia.

### Toward Independence

In October 1990, Slovenia and Croatia published a joint proposal for a Yugoslavian confederation as a last attempt at a negotiated solution, but to no avail. The Slovenian legislature also adopted in October a draft constitution proclaiming that “Slovenia will become an independent state.” On 23 December 1990, a plebiscite was held on Slovenia’s disassociation from Yugoslavia if a confederate solution could not be negotiated within a six-month period. An overwhelming majority of 89% of voters approved the secession provision and a declaration of sovereignty was adopted on 26 December 1990. All federal laws were declared void in Slovenia as of 20 February 1991, and since no negotiated agreement was possible, Slovenia declared its independence on 25 June 1991. On 27 June 1991, the Yugoslav army tried to seize control of Slovenia and its common borders with Italy, Austria, and Hungary under the pretext that it was the army’s constitutional duty to assure the integrity of Socialist Yugoslavia. The Yugoslav army units were surprised and shocked by the resistance they encountered from the Slovenian “territorial guards,” who surrounded Yugoslav Army tank units, isolated them, and engaged in close combat, mostly along border checkpoints that ended in most cases with Yugoslav units surrendering to the Slovenian forces. Fortunately, casualties were limited on both sides. Over 3,200 Yugoslav army soldiers surrendered and were well treated by the Slovenes, who scored a public relations coup by having the prisoners call their parents all over Yugoslavia to come to Slovenia and take their sons back home.

The war in Slovenia ended in 10 days due to the intervention of the European Community, who negotiated a cease-fire and a three-month moratorium on Slovenia’s implementation of

independence, giving the Yugoslav army time to retreat from Slovenia by the end of October 1991. Thus Slovenia was able to “disassociate” itself from Yugoslavia with a minimum of casualties, although the military operations caused considerable physical damages estimated at almost US\$3 billion. On 23 December 1991, one year following the independence plebiscite, a new constitution was adopted by Slovenia establishing a parliamentary democracy with a bicameral legislature. Even though US Secretary of State James Baker, in his visit to Belgrade on 21 June 1991, had declared that the US opposed unilateral secessions by Slovenia and Croatia and that the US would therefore not recognize them as independent countries, such recognition came first from Germany on 18 December 1991, from the European Community on 15 January 1992, and finally from the US on 7 April 1992. Slovenia was accepted as a member of the UN on 23 April 1992 and has since become a member of many other international organizations, including the Council of Europe in 1993 and the NATO related Partnership for Peace in 1994.

On 6 December 1992, general elections were held in accordance with the new constitution, with 22 parties participating and eight receiving sufficient votes to assure representation. A coalition government was formed by the Liberal Democrats, Christian Democrats, and the United List Group of Leftist Parties. Dr. Milan Kucan was elected president, and Dr. Janez Drnovšek became prime minister. In 1997 a compromise was struck which allowed Poland, the Czech Republic, and Hungary to join the NATO alliance in 1999 while Romania and Slovenia were identified as prime candidates for future nomination into the alliance. Also in 1997, Slovenia signed an association agreement with the European Union (EU) and was invited to talks on EU membership.

In the 1970s, Slovenia had reached a standard of living close to the one in neighboring Austria and Italy. However, the burdens imposed by the excessive cost of maintaining a large Yugoslav army, heavy contributions to the Fund for Less Developed Areas, and the repayments on a US\$20 billion international debt, caused a lowering of its living standard over the 1980s. The situation worsened with the trauma of secession from Yugoslavia, the war damages suffered, and the loss of the former Yugoslav markets. In spite of all these problems Slovenia has made progress since independence by improving its productivity, controlling inflation, and reorienting its exports to Western Europe. The Slovenian economy has been quite strong since 1994, growing at an annual rate of about 4% during the late 1990s. Based on past experience, its industriousness, and good relationship with its trading partners, Slovenia has a very good chance of becoming a successful example of the transition from authoritarian socialism to a free democratic system and a market economy capable of sustaining a comfortable standard and quality of life.

Although governed from independence by centrist coalitions headed by Prime Minister Janez Drnovšek, the coalition collapsed in April 2000. Economist and center-right Social Democrat Party leader Andrej Bajuk became prime minister, until elections on 15 October 2000 saw Drnovšek return to power at the head of a four-party coalition. Drnovšek ran for president in elections held on 1 December 2002, and emerged with 56.5% of the vote in the second round, defeating Barbara Brezigar, who took 43.5%. Both supported EU and NATO membership for Slovenia. Liberal Democrat Anton Rop took over as prime minister when Drnovšek was elected president. At a NATO summit held in Prague that November, Slovenia was one of seven countries officially invited to join the organization, and in December at an EU summit in Copenhagen, Slovenia was invited to join that body in 2004. On 23 March 2003, Slovenians approved both NATO and EU membership in referendums. The vote in favor of the EU was over 89%, and that for NATO was 66%. Turnout was 60%.

### 13 GOVERNMENT

Slovenia is a republic based on a constitution adopted on 23 December 1991, one year following the plebiscite that supported its independence. The president is Janez Drnovšek, elected in November 2002. The prime minister is Anton Rop, who became prime minister upon Drnovšek assuming the presidency.

The constitution provides for a National Assembly as the highest legislative authority with 90 seats. Deputies are elected to four-year terms of office. The National Council, with 40 seats, has an advisory role, and councilors represent social, economic, professional, and local interests. They are elected to five-year terms of office and may propose laws to the National Assembly, request the latter to review its decisions, and may demand the calling of a constitutional referendum.

The executive branch consists of a president of the republic who is also Supreme Commander of the Armed Forces, and is elected to a five-year term of office, limited to two consecutive terms. The president calls for elections to the National Assembly, proclaims the adopted laws, and proposes candidates for prime minister to the National Assembly. A Council of Ministers to advise the president is nominated by the prime minister and elected by the National Assembly.

### 14 POLITICAL PARTIES

The last parliamentary elections were held on 15 October 2000, with eight parties receiving sufficient votes to gain representation in the National Assembly: Liberal Democratic Party, 34 seats; Social Democratic Party of Slovenia, 14 seats; United List (former Communists and allies), 11 seats; Slovene People's Party and Slovenian Christian Democrats (SLS/SKD), 9 seats; New Slovenia Christian People's Party, 8 seats; Democratic Party of Retired People of Slovenia, 4 seats; Slovenian National Party, 4 seats; Party of Slovenian Youth, 4 seats; Italian Minority, 1 seat; and the Hungarian Minority, 1 seat.

Party candidates are elected by each district. A candidate is only elected when votes for each party reach a given threshold. A new electoral code was passed in 2000, raising the threshold for securing seats from 3.2% to 4% and ending the use of preferential party lists for allocating seats to candidates who did not win direct mandates.

### 15 LOCAL GOVERNMENT

The commune or municipality (*Občina*) is the basic self-managed sociopolitical community. There are 182 municipalities and 11 urban municipalities in Slovenia, which have directly elected councils as their representative bodies. A municipality must have at least 5,000 inhabitants. An urban municipality must have at least 20,000 inhabitants, be the place of employment for at least 15,000 people, and be the geographic, economic, and cultural center of the area. There are 58 state administrative units in Slovenia, which have jurisdiction over one or several municipalities. Advisory committees are formed to ensure cooperation between municipal bodies and administrative units. Members of these committees are appointed by the municipal councils. There are also local, village, and ward communities in Slovenia.

### 16 JUDICIAL SYSTEM

The judicial system consists of local and district courts and a Supreme Court, which hears appeals from these courts. A nine-member Constitutional Court resolves jurisdictional disputes and rules on the constitutionality of legislation and regulations. The Constitutional Court also acts as a final court of appeal in cases requiring constitutional interpretation.

Judges are elected by parliament after nomination by a Judicial Council composed of 11 members—six judges selected by their peers and five persons elected by the National Assembly on

nomination of the president. The constitution guarantees the independence of judges. Judges are appointed to permanent positions subject to an age limit.

The constitution affords criminal defendants a presumption of innocence, open court proceedings, the right to an appeal, a prohibition against double jeopardy, and a number of other procedural due process protections.

### 17 ARMED FORCES

The Slovenian armed forces numbered 9,000 active personnel in 2002, with 20,000 reservists. The army of 9,000 was equipped with 47 main battle tanks. The army's air wing of 250 personnel had eight armed helicopters. There was also a small maritime element. Paramilitary consisted of a 4,500 member police force. Slovenia participated in UN and peacekeeping missions in three regions. Defense spending was \$370 million in 2000, or 1.7% of GDP.

### 18 INTERNATIONAL COOPERATION

Slovenia was admitted to the UN in 1992. It is also a member of the Council of Europe, ECE, OSCE, IAEA, ICAO, ILO, ITU, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, and WTO. In November 2002, NATO invited Slovenia to join the organization, and in December 2002, Slovenia was invited to join the EU in 2004. In referendums held in March 2003, Slovenian voters approved accession to both bodies.

### 19 ECONOMY

Before its independence, Slovenia was the most highly developed and wealthiest republic of the former Yugoslav SFR, with a per capita income more than double that of the Yugoslav average, and nearly comparable to levels in neighboring Austria and Italy. The painful transition to a market-based economy was exacerbated by the disruption of intra-Yugoslav trade. However, Slovenia's economy has not suffered as much as was predicted during the breakup of the Yugoslav SFR, due to strong ties with Western Europe. Whereas GDP fell by 9% in 1991 and 6% in 1992, the 1993 GDP grew by 1.3%. Since then real GDP growth has averaged 4% a year. In 2001 and 2002, a weak external environment slowed growth to 3% and 2.9% (est.). Until 1991 to 1999, Slovenia's budget deficit rarely exceeded 1% of GDP. In 2000 and 2001, the general government debt increased to 1.4% of GDP, and was projected to reach 2.9% in 2002. The unemployment rate (ILO definition) has fallen from 7.6% in 1999 to 6.4% in 2001 and an estimated 6.3% in 2002. Inflation as measured by consumer prices (end of period) rose from 8% in 1998 and 1999 to 8.9% in 2000, but then fell to 7% in 2001 and 7.2% (est.) in 2002.

Under the Communists, large parts of the economy were nationalized, with most restructuring involving the infrastructure, electricity, telecommunications, utilities, major banks, insurers, and the steel industry. Subsequent reforms enabled managers and workers to purchase up to 60% of their companies. As a result, nearly 70% of manufacturing firms in Slovenia are owned by their employees.

Slovenia freed prices and implemented a privatization law in November 1992, which has enabled private businesses to expand. The Slovene privatization program began in 1993 and involved 1,500 companies, 1,000 of which had completed privatization by mid-1997, including most small and medium-sized enterprises. In 2001, an estimated 55% of the economy had been privatized.

The outlook for Slovenia's economy is good, as both inflation and unemployment are expected to continue edging down. By 2002 the country's real GDP per capita had risen to about 70% the EU average. Slovenia is now scheduled to accede to the European Union in May 2004.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Slovenia's gross domestic product (GDP) was estimated at \$36 billion. The per capita GDP was estimated at \$18,000. The annual growth rate of GDP was estimated at 3%. The average inflation rate in 2002 was 7.4%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 3% of GDP, industry 36%, and services 61%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$14 million or about \$7 per capita and accounted for approximately 0.1% of GDP. Worker remittances in 2001 totaled \$16.57 million. Foreign aid receipts amounted to about \$63 per capita and accounted for approximately 1% of the gross national income (GNI).

The World Bank reports that in 2000 per capita household consumption (in constant 1995 US dollars) was \$6,379. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. Approximately 27% of household consumption was spent on food, 14% on fuel, 4% on health care, and 16% on education. The richest 10% of the population accounted for approximately 23.0% of household consumption and the poorest 10% approximately 3.9%.

## 21 LABOR

As of 2002, there were close to one million persons in the labor force. Forty percent of all employees were in manufacturing, 12.2% in commerce, 12% in agriculture, and the remainder in other sectors. Unemployment stood at 11% in 2002.

The constitution provides that the establishment, activities, and recruitment of members of labor unions shall be unrestricted. There are two main labor federations, with constituent branches throughout the society, as well as a smaller regional union. Virtually all workers except for police and military personnel are eligible to form and join unions. The right to strike is also guaranteed by the constitution. Collective bargaining is still undergoing development, and the government still has the principal role in setting labor conditions.

The minimum wage was \$373 monthly in 2002, although increasingly, private businesses are setting pay scales directly with their employees' unions or representatives. The workweek is 42 hours, and the minimum working age is 16. Occupational health and safety standards are set by the government and regularly enforced.

## 22 AGRICULTURE

Some 285,000 hectares (704,000 acres), or 14% of the total land area, were in use as cropland in 1998. Agriculture contributed about 3% to GDP in 2001; Slovenia was the least agriculturally active of all the republics of the former Yugoslav SFR. Major crops produced in 1999 included: wheat, 117,000 tons; corn, 308,000 tons; potatoes, 194,000 tons; sugar beets, 467,000 tons; and fruit, 207,000 tons (of which grapes accounted for 47%).

## 23 ANIMAL HUSBANDRY

Permanent pasture land covers about 25% of the total land area. Sheep and cattle breeding, as well as dairy farming, dominate the agricultural sector of the economy. In 2001, the livestock population included: pigs, 604,000; cattle, 494,000; sheep, 46,000; goats, 22,000; horses, 15,000; and chickens, 4.3 million. Meat production in 2001 included 48,000 tons of beef, 66,000 tons of pork, and 72,000 tons of poultry. Productivity rates for livestock and dairy farming are comparable to much of Western

Europe. In 2001, 634,000 tons of milk and 23,000 tons of eggs were produced.

## 24 FISHING

The total catch in 2000 was 1,859 tons, 94% from marine fishing. The freshwater catch is dominated by rainbow trout and common carp. Exports of fish products amounted to \$6.2 million in 2000, up from \$5.1 million in 1997. The fishing sector accounts for less than 1% of foreign investment.

## 25 FORESTRY

In 2000, forests covered 55% of the total area; they are Slovenia's most significant natural resource. Roundwood production was 2,253,000 cu m (79.5 million cu ft) in 2000. Production included wood pulp, 153,000 tons; paper and paperboard, 411,000 tons; and plywood, 35,000 cu m (1.2 million cu ft). Exports of forest product in 2000 totaled \$426 million. The furniture-making industry is also a prominent consumer of forest products.

## 26 MINING

Slovenia's nonfuel mineral resources included lead-zinc (from Mezica) and mercury (mined and smelted in Idrija). The country relied heavily on ferrous ores and metals, and other mining and quarrying products, for, among others, an aluminum plant at Kidricevo, and the iron- and steel-producing facilities at Jesenice, Ravne, and Store. The mining and quarrying share of industrial output declined by 2.7% in 2000, as did that of industrial mineral products, which declined by 3.6%. Apart from being a substantial producer of glass sand (200,000 tons in 2000), Slovenia was also a modest producer of ceramic clay, kaolin, gypsum, lime, pumice, quartz, quartzite, salt, sand and gravel, silica, and dimension stone, mostly for domestic uses.

## 27 ENERGY AND POWER

In 2001, total installed electrical capacity was 2,664 million kW. Production in 2000 amounted to 12,800 million kWh that year, of which 34.9% was from fossil fuels, 29.4% from hydropower, 35.4% from nuclear power, and less than 1% from other sources. Consumption of electricity in 2000 was 10.6 billion kWh. Slovenia is relatively well supplied with hydroelectricity; about 30% of total generation in 1998 came from hydropower. Several thermal plants and one nuclear power plant also supply electricity. Slovenia imports oil from the former republics of the USSR and the developing world to supply a refinery at Lendava. Coal is mined at Velenje. Natural gas is used extensively for industry and is supplied by the former USSR and Algeria via 305 km (190 mi) of natural gas pipelines.

## 28 INDUSTRY

Manufacturing is widely diversified. Important manufacturing sectors include: electrical and nonelectrical machinery, metal processing, chemicals, textiles and clothing, wood processing and furniture, transport equipment, and food processing. In the composition of total value-added by economic activity, the share from industry declined from 50% in 1989 to 43% in 1991. Industry declined still further to 36% of GDP by 2001. Industrial production, which fell by about 25% in the early 1990s due in part to the international sanctions against Serbia, grew by an estimated 1% in 1996 and increased by 3.3% in 2001. The recovery of industrial production has been slower than expected, as the shift from parastatal to private ownership continues. Only in the late 1990s were steps taken to privatize key industrial sectors such as telecommunications, utilities, and steel. Slovenia produced 116,082 automobiles in 2001, a 6% decline from 2000.

## 29 SCIENCE AND TECHNOLOGY

The Slovenian Academy of Sciences and Arts, founded in 1938, has institutes conducting research in biology, paleontology, and

medicine. Headquartered in Ljubljana are the Association of Engineers and Technicians of Slovenia; the Association of Mathematicians, Physicists, and Astronomers of Slovenia, and the Society for Natural Sciences of Slovenia. The Ljubljana Geological Institute was founded in 1946, and the Institute for Karst Research a year later in Postojna. The University of Ljubljana has faculties of arts and sciences; natural sciences and technology; architecture, civil engineering, and geodesy; electrical and computer engineering; mechanical engineering; medicine; and veterinary medicine. The University of Maribor has a college of agriculture, a faculty of technical sciences, and a center for applied mathematics and theoretical physics. In 1987–97, science and engineering students accounted for 26% of university enrollment.

In 1987–97 research and development expenditures totaled 1.5% of GNP; 2,251 scientists and engineers and 1,027 technicians per one million people were engaged in research and development.

### 30 DOMESTIC TRADE

Slovenia's domestic economy has historically been small, thus necessitating an emphasis on exports. New legislation in 1994 regarding tax exemptions on imported inputs was expected to help domestic companies compete with foreign firms. More recent reforms are aimed at encouraging and increasing both local and foreign investment.

There are a number of wholesalers and retailers throughout the country. American and European franchises have been established within the country. Installment financing, even for small ticket items, is common. Consumer prices are generally high due to the high cost of labor and transportation. The government maintains price controls on certain goods and services, such as gasoline, railway travel, telecommunications, and milk.

Retail hours are generally between 8 AM and 8 PM on weekdays. Stores may be open for a half-day on Saturdays.

### 31 FOREIGN TRADE

Slovenia has reoriented much of its trade away from its former Yugoslav neighbors toward Western Europe. Sanctions imposed by the UN on trade with Serbia severed Slovenia from its largest foreign market. In 1992, 55% of Slovenia's exports were sent to the European Union, and only 30% to Croatia and the other former Yugoslav republics. By 2000, the EU was buying 64% of Slovenia's exports.

Slovenia manufactures and exports mostly motor vehicles (8.5%), furniture (6.8%), and household electrical equipment (5.7%). Other exports include medicinal and pharmaceutical products (4.5%), clothes (4.4%), paper (3.4%), and iron and steel (3.3%).

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	2,376	1,918	458
Italy	1,188	1,761	-573
Croatia	688	448	240
Austria	656	831	-175
France	620	1,043	-423
United States	271	300	-29
Russia	191	229	-38
United Kingdom	186	310	-124
Hungary	169	294	-125
Czech Republic	151	252	-101

### 32 BALANCE OF PAYMENTS

Slovenia's public finances are among the strongest and most stable of the emerging nations in Eastern and Central Europe.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Slovenia's exports was \$10.3 billion while imports totaled \$11.1 billion resulting in a trade deficit of \$800 million.

The International Monetary Fund (IMF) reports that in 2001 Slovenia had exports of goods totaling \$9.34 billion and imports totaling \$9.96 billion. The services credit totaled \$1.96 billion and debit \$1.46 million. The following table summarizes Slovenia's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>31</b>
Balance on goods	-620
Balance on services	502
Balance on income	19
Current transfers	129
<b>Capital Account</b>	<b>-4</b>
<b>Financial Account</b>	<b>1,204</b>
Direct investment abroad	-133
Direct investment in Slovenia	503
Portfolio investment assets	-108
Portfolio investment liabilities	189
Other investment assets	207
Other investment liabilities	546
<b>Net Errors and Omissions</b>	<b>53</b>
<b>Reserves and Related Items</b>	<b>-1,285</b>

### 33 BANKING AND SECURITIES

The Bank of Slovenia is the country's central bank, and it is independent of the government. It has pursued a tight monetary and credit policy, aimed at the gradual reduction of inflation, since the introduction of the tolar in October 1991. The bank ended some of the worst abuses of the banking system under the Yugoslavian federation, such as enterprises setting up their own banks from which they borrowed freely.

At the end of 1996, the Bank of Slovenia changed its method of calculating the revalorization rate for other banks. From January 1997, the rate is derived from price increases over the preceding six months, instead of four months as before.

Yet not until 1999 did Slovenia move to reform its banking sector by privatizing some of its largest banks and permitting foreign investment. Two of the largest state-owned banks, Nova Ljubljanska Banka, Nova Kreditna banka Maribor were prime candidates for privatization. Analysts also expected large-scale consolidation to follow in the wake of the banking divestment.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$1.9 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$10.8 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 6.9%.

Commercial banks in the country include the Albania Joint-Stock Company. The currency unit is the tolar (Slt). The Ljubljana Stock Exchange, abolished in 1953, was reopened in December 1989. As of 2001, it listed 38 securities and had 60 members. Total market capitalization was \$2.8 billion that year, and trading value was \$794 million, an increase of 30.5% from the previous year. The Ljubljana International Futures and Options Exchange, Ltd. opened in 1998.

### 34 INSURANCE

In 1996, the company Zavarovalnica Triglav wrote all classes of insurance. There were at least 13 companies operating in Slovenia in 1997. In 2001, there was \$203 million worth of life insurance premiums written.

### 35 PUBLIC FINANCE

Economic management is fairly good in Slovenia. Public finances showed modest deficits of about 1.4% of GDP through 2001. The debt to GDP ratio was 37% in 2001. Privatization has been relatively successful, although some of the business practices of the Yugoslav brand of communism have carried over to the newly private enterprises.

The US Central Intelligence Agency (CIA) estimates that in 1997 Slovenia's central government took in revenues of approximately \$8.1 billion and had expenditures of \$8.3 billion. Overall, the government registered a deficit of approximately \$210 million. External debt totaled \$7.9 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	8,110
Tax revenue	93.1%	7,553
Non-tax revenue	6.3%	507
Capital revenue	<0.1%	5
Grants	0.6%	46
EXPENDITURES	100.0%	8,320
General public services	7.9%	661
Defense	3.1%	257
Public order and safety	4.2%	352
Education	10.7%	893
Health	14.5%	1,205
Social security	43.5%	3,621
Housing and community amenities	1.2%	103
Recreation, cultural, and religious affairs	1.6%	134
Economic affairs and services	9.2%	767
Other expenditures	<0.1%	1
Interest payments	3.9%	325

### 36 TAXATION

In the beginning of 1994, tax holidays for payment of corporate income taxes were eliminated. A more liberal depreciation schedule was implemented extending the carry forward period for losses from one to five years. The basic rate for corporate income taxes was lowered in late 1994 from 40% to 25%. Capital gains are included in taxable income and taxed at the same corporate rate. The withholding tax on dividends distributed to residents is 25%, and 15% on dividends distributed to non-residents (unless the latter is reduced or eliminated through a tax treaty). The resident branches of foreign companies are taxed at the same 25% rate as Slovenian companies.

Personal income is taxed according to a progressive schedule ranging from 17%, up to taxable yearly income of 860,487 Tolar (about \$4,277) to 50%, on the increment of yearly income above 5,162,920 Tolar (about \$25,661). The intermediate bands in 2002 were 35%, 37%, 40% and 45%. All taxpayers can subtract 11% of their annual income from their taxable base. In addition, families with children can deduct 10% of their income for the first child and 5% for each additional child. There is a standard 3% deduction for investment in real estate, plus allowances for other living expenses, medical expenses, etc. Payroll taxes are assessed for health insurance and employment. Gift and inheritance taxes range from 5% to 30%. Land taxes range from 0.1% to 1.5%.

A sales tax of 20% on consumer products and 10% on services was replaced as of 1 July 1999 with Slovenia's value-added tax (VAT) introduced at a standard rate of 19% and a reduced rate of 7.5%. As of 1 January 2002 the standard rate was increased to 20% and the reduced rate upped to 8.5%. The reduced rate applies to transport, domestic rent and certain royalties. There are also excise taxes on alcohol, tobacco, and fuel.

### 37 CUSTOMS AND DUTIES

Imports to Slovenia are generally unrestricted, except for certain agricultural, textile, and wood products. Customs duties on raw materials are 0–5%, semi-finished products are assessed 5–10%, and equipment is charged 8–15%, while finished products or consumer goods are levied 15–27%. Many import taxes have been abolished, and further liberalization is planned. However, a sales tax and a customs clearance fee still exist.

The European Union signed a cooperation agreement with Slovenia in April 1993, which provided for greater access to the EU market. Slovenia also entered into trade agreements with Hungary, the Czech Republic, and Slovakia in 1993 that will gradually eliminate most trade barriers. By 1997, countries enjoying most-favored nation (MFN) status with Slovenia were assessed a 10.7% weighted average tariff. In 1999, following a reduction in its bilateral tariff with the European Union, Slovenia also lowered its MFN tariff.

### 38 FOREIGN INVESTMENT

Since independence, the foreign investment climate has steadily improved in Slovenia, despite constraints that have inhibited investment. The small domestic economy has been viewed by many prospective investors as the least risky of the former Yugoslav republics, but to date Slovenia's share of world foreign direct investment (FDI) flows has been well below its share of world GDP. From 1988 to 1990, its share of world FDI was 60% of its share of world GDP, and from 1998 to 2000, it was only 30% of its share of world GDP.

Until the late 1990s Slovenia retained several barriers to foreign investment. Any company incorporated in Slovenia was required to have a majority of Slovenes on its board of directors, or a managing director or proxy of Slovene nationality. Foreign companies and individuals of foreign nationality were prohibited from owning land in Slovenia. However, any company incorporated in Slovenia was permitted to purchase real estate, regardless of the origin of its founding capital. Liberalization laws enacted in 1999 lowered the threshold of foreign direct investment from 50% to 10%. This allowed more foreign investors to avert the custody account regime.

FDI inflow amounted to \$375.2 million in 1997, but fell to about \$250 million in 1998. In 1999 and 2000, FDI inflows averaged close to \$180 million. In 2001, contrary to the trend toward the decline of foreign investment worldwide, FDI inflow into Slovenia rose to a record \$442 million.

### 39 ECONOMIC DEVELOPMENT

The most productive of the former Yugoslav republics, Slovenia enjoys a high degree of prosperity and stability, and has made a successful transition to a market economy. Slovenia has become a member of the International Monetary Fund (IMF) as well as the World Bank; it obtained an \$80 million loan for financial rehabilitation from the latter. The EBRD loaned Slovenia \$50 million for the improvement of the railway sector. The country is a founding member of the WTO. Unlike the rest of the former communist states of Eastern Europe, Slovenia never received assistance from the International Monetary Fund. Its per capita gross domestic product (GDP) is comparable to EU members Portugal and Greece. Slovenia was formally invited to join the EU in December 2002, with accession planned for May 2004.

Slovenia's economy is heavily dependent upon foreign trade, with trade equaling around 120% of GDP. The budgets for 2003 and 2004 restricted the public deficit to 1% of GDP. Inflation fell from 200% in 1992 to 7.5% in 2002. Further privatizations—especially in the telecommunications, financial, and energy sectors—were planned as of 2003. Foreign direct investment has been high since 2000, almost tripling from 2001 to 2002 (accounting for 6.5% of GDP).



## 40 SOCIAL DEVELOPMENT

Slovenia's first social insurance programs were established in 1922. The system provides old age, disability, survivor's pensions, sickness, work injury and unemployment benefits. The pensions system covers employed persons, members of cooperatives, craftsmen, artists, and farmers. Funds are provided by employee and employer contributions, with any unforeseen deficit covered by the government. The government funds the total cost for some groups of insured including veterans. The age of retirement is variable, depending upon the numbers of years worked. The Health Care and Health Insurance Act provides health care services and sickness benefits to employed persons, pensioners, and citizens with low incomes. A universal system of family allowances provides benefits to families with children with incomes below a specified monthly amount. There is a maternity grant available to all permanent residents in Slovakia to purchase clothing and other necessities for a newborn child.

Women and men have equal status under the law. Discrimination against women or minorities in housing, jobs, or other areas is illegal. Officially, both spouses are equal in marriage, and the constitution asserts the state's responsibility to protect the family. Women are well represented in business, academia, and government, although they still hold a disproportionate share of lower-paying jobs. On average, women earned 15% less than men. Violence against women is underreported, but awareness has been increasing. There have been improved efforts to assist victims. The constitution provides for special protection against economic, social, physical, or mental exploitation or abuse of children.

The constitution ensures minority participation in government by mandating that Italian and Hungarian minorities each receive at least one representative in the National Assembly. The Roma population continues to experience discrimination. Human rights are generally respected by the government and upheld by the legal and judicial systems.

## 41 HEALTH

In 1992, health care reforms were adopted to modify the health care system in place when Slovenia was part of the former communist country of Yugoslavia. Direct health care funding by the government was replaced by a mostly employer-funded system run in conjunction with a new system of compulsory public health insurance. However, Slovenia still provides universal, comprehensive health care to all its citizens and its health care system remains fairly centralized. As of 1999, there were an estimated 3.5 physicians and 7.1 hospital beds per 1,000 people. In the same year, total health care expenditure was estimated at 7.6% of GDP. In 2002 Slovenia had 26 hospitals, which included nine regional facilities, three local general hospitals, and the country's main teaching hospital and tertiary care center, the Clinical Center in Ljubljana.

In 2000, each Slovenian woman had an average of 1.2 children during her childbearing years. Only 11 mothers died during childbirth or pregnancy for each 100,000 live births in 1998. The infant mortality rate, which was 15 deaths per 1,000 in 1980, dropped significantly by 2000 to only 5 infant deaths per 1,000 live births. The immunization rates in 1997 for a child under one were as follows: diphtheria, pertussis, and tetanus, 91%, and measles, 82%. The life expectancy at birth was 75 years by 2000.

As of 2002 the leading cause of death was cardiovascular disease, to which nearly half of all deaths were attributed. The other major causes of mortality, in order of prevalence, were cancer, injuries, poisoning, respiratory diseases, and diseases of the digestive system. In the mid-1990s, there were more than 525 documented cases of tuberculosis; in 1999 there were 27 cases per 100,000 people. More Slovenian men smoked than women (35% vs. 23%). As of 1999, the number of people living with

HIV/AIDS was estimated at 200 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.02 per 100 adults.

## 42 HOUSING

According to the 2002 census, there were 777,772 dwelling units within 463,029 buildings. About 80% of residential buildings were detached houses. About 94,635 dwellings had been built since 1991. About 52% of all dwellings were in urban areas. The average household had 2.8 people.

Since the 1991 Housing Act, the State is no longer directly responsible for housing provisions. Municipalities have responsibility for social housing projects. The State does, however, offer subsidized loans for the construction of individual private homes and non-profit rental housing.

## 43 EDUCATION

Slovenia has a high literacy rate. For the year 2000, adult illiteracy was estimated at 0.3% (males, 0.3%; females, 0.4%). There were 824 primary schools and 98,866 primary students in 1997. At the secondary level, 14,573 teachers taught 14,573 students in the same year. The pupil-teacher ratio at the primary level was estimated at 14 to 1 in 1999. In the same year, an estimated 94% of primary-school-age children were enrolled in school, while 90% of those eligible attended secondary school.

In Slovenia there are two universities located at Ljubljana and Maribor. The University of Ljubljana, founded in 1919, has 25 faculties. The University of Maribor has a faculty for teaching, a faculty for economics and business, and a faculty for technology. There are also two colleges attached to it. In 1997, 51,009 pupils were enrolled in higher-level education; teaching staff totaled 3,907. As of 1999, public expenditure on education was estimated at 5.8% of GDP.

## 44 LIBRARIES AND MUSEUMS

The National University Library of Slovenia is located in Ljubljana and holds 2.3 million volumes. The Slovenian Academy of Sciences and Arts, also in the capital, holds 450,000 volumes. In 1997 there were 239 service points for the public library system, holding in total 6.2 million volumes.

Ljubljana hosts the National Gallery, Museum of Modern Art, Museum of Architecture, National Museum of Slovenia, as well as five other galleries and museums. The Technology Museum of Slovenia is in Vrhnika. There are dozens of regional museums throughout the country, including several in restored historical houses and castles.

## 45 MEDIA

In 1997, Slovenia had 722,000 main line telephones. A 2000 report indicated that there are an additional 1 million mobile cellular phones in use throughout the country. As of 1998, there were 17 AM and 160 FM radio stations. In 2001 there were 48 television channels. A 2000 report estimates there are 405 radios and 368 televisions for every 1,000 people. The same report shows there are about 276 personal computers in use for every 1,000 people. There were about 11 Internet service providers serving 600,000 users in 2001.

As of 2002, there were four major independent daily and several weekly newspapers published. The dailies are *Delo* (2002 circulation of 90,000), *Slovenske Novice* (80,000), *Dnevnik* (62,000), and *Vecer* (70,000).

The constitution provides for free expression, including freedom of speech and the press; however, it is said that lingering self-censorship and some indirect political pressures do continue to influence the media.

## 46 ORGANIZATIONS

The Slovenia Chamber of Commerce (Chamber of Economy of Slovenia) coordinates all economic activities within and outside the country. In the 1990s, two large associations of trade unions were formed: the Confederation of New Trade Unions of Slovenia and the Association of Independent Trade Unions. There are professional associations for the advancement of research and education in a variety of medical fields. The Slovenian Academy of Sciences and the Arts was founded in 1938.

National youth organizations include The UN Student Club of Slovenia, the Catholic Student Movement of Slovenia, the Students Union of Slovenia, and the Scout Association of Slovenia. Women's organizations include The Center for Gender and Politics at the Peace Institute and Soroptomist International.

International organizations with national chapters include Amnesty International and the Red Cross.

## 47 TOURISM, TRAVEL, AND RECREATION

Slovenia has convention centers in Ljubljana and three other cities and international airports in Ljubljana, Maribor, and Portoroz. Popular recreational activities include tennis, golf, mountain climbing, canoeing, and fishing. Visitors from Europe and most other countries can enter Slovenia without visas.

There were 16,265 hotel rooms with 33,502 beds and a 39% occupancy rate in 2000. That year there were 1,090,000 tourist arrivals in Slovenia with receipts totaling \$961 million.

The daily cost of staying in Ljubljana, according to 2002 US government estimates, averaged \$198 per day.

## 48 FAMOUS SLOVENIANS

Milan Kučan and Janez Drnovšek have been president and prime minister of Slovenia since 1990 and 1992 respectively. In 1551, Primož Trubar translated the New Bible into Slovene. The poet, Valentin Vodnik (1754–1819), wrote poems in praise of Napoleon; literature in praise of the French flourished during the

French occupation of Slovenia in 1813. Slovenian tennis star Mima Jausovec (b. 1956) won the Italian Open in 1976 and the French Open in 1977.

## 49 DEPENDENCIES

Slovenia has no territories or colonies.

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# SPAIN

Kingdom of Spain

*España*

**CAPITAL:** Madrid

**FLAG:** The national flag, adopted in 1785, consists of three horizontal stripes: a yellow one—equal in size to the other two combined—between two red ones, with the coat of arms on the yellow stripe.

**ANTHEM:** *Marcha Real Granadera (March of the Royal Grenadier)*.

**MONETARY UNIT:** The peseta was replaced by the euro as official currency as of 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year's Day, 1 January; St. Joseph's Day, 19 March; Epiphany, 31 March; Day of St. Joseph the Artisan, 1 May; St. James's Day, 25 July; Assumption, 15 August; National Day and Hispanic Day, 12 October; All Saints' Day, 1 November; Immaculate Conception, 8 December; Christmas, 25 December. Movable religious holidays include Holy Thursday, Good Friday, Easter Monday, and Corpus Christi.

**TIME:** 1 PM = noon GMT.

## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Occupying the greater part of the Iberian Peninsula, Spain is the third-largest country in Europe, with an area of 504,782 sq km (194,897 sq mi). Comparatively, the area occupied by Spain is slightly more than twice the size of the state of Oregon. This total includes the Balearic Islands (Islas Baleares) in the western Mediterranean Sea and the Canary Islands (Islas Canarias) in the Atlantic Ocean west of Morocco; both island groups are regarded as integral parts of metropolitan Spain. The Spanish mainland extends 1,085 km (674 mi) E–W and 950 km (590 mi) N–S. Bordered by the Bay of Biscay, France, and Andorra on the N, by the Mediterranean on the E and S, by Gibraltar and the Strait of Gibraltar on the S, by the Gulf of Cádiz on the SW, and by Portugal and the Atlantic on the W, Spain has a total land boundary of 1,918 km (1,192 mi) and a coastline of 4,964 km (3,084 mi). Spain also holds Ceuta, Melilla, and other “places of sovereignty” in the north of Morocco.

Spain has long claimed Gibraltar, a narrow peninsula on the south coast, which was taken by a British-Dutch fleet in 1704 and became a British colony under the Treaty of Utrecht (1713). Spain closed the border with Gibraltar in 1969. In 1980, agreement was reached with Britain to begin negotiations concerning Gibraltar's sovereignty; the border was opened to pedestrian traffic in December 1982 and fully reopened in February 1985. Talks between the United Kingdom and Spain were held in February and December 1985 and January 1987.

Spain's capital city, Madrid, is located in the center of the country.

## <sup>2</sup>TOPOGRAPHY

Continental Spain is divided into five general topographic regions: (1) The northern coastal belt is a mountainous region with fertile valleys and large areas under pasture and covered with forests. (2) The central plateau, or Meseta, with an average altitude of about 670 m (2,200 ft), comprises most of Castilla y León, Castilla-La Mancha, and the city of Madrid. (3) Andalucía, with Sevilla its largest city, covers the whole of

southern and southwestern Spain and, except for the flat fertile plain of the Guadalquivir River, is a mountainous region with deep fertile valleys. (4) The Levante is on the Mediterranean coastal belt, with Valencia its chief city. (5) Catalonia (Cataluña) and the Ebro Valley comprise the northeastern region.

Spain has six principal mountain ranges—the Pyrenees, the Cordillera Cantábrica, the Montes de Toledo, the Sierra Morena, the Serranías Penibéticas, and the Sistema Ibérico. The principal peaks are Pico de Aneto (3,404 m/11,168 ft) in the Pyrenees and Mulhacén (3,478 m/11,411 ft) in the Penibéticas. The main rivers are the Tagus (Tajo), Duero, Guadiana, and Guadalquivir, which flow to the Atlantic, and the Ebro, which flows to the Mediterranean. The Duero and the Guadalquivir form broad valleys and alluvial plains and at their mouths deposit saline soils, creating deltas and salt marshes. The coastline has few natural harbors except the estuaries (rías) in the northwest, formed by glaciers, and those in the Levante and the south, created by sandbars during the Quaternary period.

The Canary Islands are a group of 13 volcanic islands, of which 6 are barren. They have a ruggedly mountainous terrain interspersed with some fertile valleys. Spain's highest mountain, Pico de Teide (3,718 m/12,198 ft), is on Tenerife. The Balearic Islands are a picturesque group with sharply indented coastlines; they combine steep mountains with rolling, fertile ranges.

## <sup>3</sup>CLIMATE

The climate of Spain is extremely varied. The northern coastal regions are cool and humid, with an average annual temperature of 14°C (57°F); temperatures at Bilbao range from an average of 10°C (50°F) in January–March to 19°C (66°F) during July–September. The central plateau is cold in the winter and hot in the summer; Madrid has a winter average of about 8°C (46°F) and a summer average of 23°C (73°F). In Andalucía and the Levante, the climate is temperate except in summer, when temperatures sometimes reach above 40°C (104°F) in the shade. The northern coastal regions have an average annual rainfall of 99 cm (39 in); the southern coastal belt has 41–79 cm (16–31 in); and the

interior central plain averages no more than 50 cm (20 in) annually.

#### **4<sup>F</sup> FLORA AND FAUNA**

Because of its wide variety of climate, Spain has a greater variety of natural vegetation than any other European country; some 8,000 species are cataloged. Nevertheless, vegetation is generally sparse. In the humid areas of the north there are deciduous trees (including oak, chestnut, elm, beech, and poplar), as well as varieties of pine. Pine, juniper, and other evergreens, particularly the ilex and cork oak, and drought-resistant shrubs predominate in the dry southern region. Much of the Meseta and of Andalucía has steppe vegetation. The Canaries, named for the wild dogs (*canariae insulae*) once found there, support both Mediterranean and African flora. A small, yellow-tinged finch on the islands has given the name “canary” to a variety of yellow songbirds widely bred as house pets. Animal life in Spain is limited by the pressure of population and few wild species remain.

#### **5<sup>E</sup> ENVIRONMENT**

Extensive forests are now limited to the Pyrenees and the Asturias-Galicia area in the north because centuries of unplanned cutting have depleted stands. Fire eliminates 700,000 to 1,000,000 hectares of forestland each year. Government reforestation schemes meet with difficulties where sheep and goats graze freely over large areas. During the 1980s, an average of 92,000 hectares (227,000 acres) were reforested annually. Erosion affects 18% of the total land mass of Spain.

Air pollution is also a problem in Spain. In 1995 industrial carbon dioxide emissions totaled 223.2 million metric tons (a per capita level of 5.72 metric tons), ranking Spain 20th compared to the other nations of the world. Industrial and agricultural sources contribute to the nation’s water pollution problem. Spain is also vulnerable to oil pollution from tankers which travel the shipping routes near the nation’s shores. Spain’s cities produce about 13.8 million tons of solid waste per year.

Principal environmental responsibility is vested in the Directorate General of the Environment, within the Ministry of Public Works and Urban Affairs. As of 2001, 8.4% of the country’s total land area is protected. In the same year, 19 of the country’s mammal species, 10 bird species, 10 types of freshwater fish, and 822 plant species were endangered. Endangered species include the Spanish lynx, Pyrenean ibex, Mediterranean monk seal, northern bald ibis, Spanish imperial eagle, Cantabrian capercaillie, dusky large blue and Nevada blue butterflies, and on the Canary Islands, the green sea turtle and Hierro giant lizard. The Canarian black oystercatcher and the Canary mouse have become extinct.

#### **6<sup>P</sup> POPULATION**

The population of Spain in 2003 was estimated by the United Nations at 41,060,000, which placed it as number 29 in population among the 193 nations of the world. In that year approximately 17% of the population was over 65 years of age, with another 15% of the population under 15 years of age. There were 96 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.21%, with the projected population for the year 2015 at 41,167,000. The population density in 2002 was 81 per sq km (211 per sq mi).

It was estimated by the Population Reference Bureau that 78% of the population lived in urban areas in 2001. The capital city, Madrid, had a population of 4,070,000 in that year. Other large urban areas include Barcelona (2,819,000), Valencia (754,000), Seville (683,028), Zaragoza (594,394), and Málaga (522,108). According to the United Nations, the urban population growth rate for 2000–2005 was 0.2%.

#### **7<sup>M</sup> MIGRATION**

Emigration of Spanish workers to the more industrialized countries of Western Europe, notably to the Federal Republic of Germany (FRG), France, Switzerland, and Belgium, increased markedly during the 1960s, but since 1973 the number of Spaniards returning to Spain has been greater than the number of those leaving. Nevertheless, more than 1.7 million Spanish citizens were residing outside the country in 1987. In 1991, Spain had 360,655 foreign residents. Some come there to retire, others to work. There were 75,422 British in 1991 and 49,513 Moroccans. Germans, French, Portuguese, and Argentinians were also well represented.

Internal migration was 685,966 in 1990. In the past it has been directed toward the more industrialized zones and the great urban centers, and away from the rural areas. Rural-to-urban and urban-to-rural migration is now roughly in balance.

A gateway into Europe, Spain receives large numbers of non-European migrants through Ceuta and Melilla. Between 1984–98, an estimated 8,000 people were granted refugee status. In 1998, 6,654 people applied for asylum in Spain, up from 4,730 in 1996. Main countries of origin were Algeria and Romania. Also in 1998, 235 people were recognized as refugees and 727 were granted humanitarian status. In 1999 the net migration rate was 0.66 migrants per 1,000 population.

#### **8<sup>E</sup> ETHNIC GROUPS**

Ethnological studies reveal a homogeneous Latin stock in three-fourths of the country. The greatest contrasts are found between those of Celtic, Iberic, and Gothic antecedents in the north and those of southern lineage. The great mobility of the population toward the urban centers, the coast, and the islands has contributed to the diffusion of ethnic characteristics.

Cultural groups, but not properly distinct ethnic groups, include the Castilians of central Spain, the Asturians and the Basques of Vizcaya, Álava, Guipúzcoa, and (in part) Navarra provinces in the north, the Catalans of Catalonia, the Galicians of the far northwest, and the Andalusians of the south. The Basques, Galicians, and Catalans consider themselves separate nations within Spain; they enjoy considerable cultural, economic, and political autonomy. Estimates of the Gypsy population range from 50,000 to 450,000.

#### **9<sup>L</sup> LANGUAGES**

According to the 1978 constitution, Spanish is the national language. Castilian, the dialect of the central and southern regions, is spoken by most Spaniards (74%) and is used in the schools and courts. Regional languages—Catalan (spoken by 17% of the population), Galician (7%), Basque (2%), Bable, and Valencian—are also official in the respective autonomous communities, where education is bilingual.

According to census data, regional languages were spoken by 16,307,921 persons in Spain. A majority of those who live in the northeastern provinces and the Balearic Islands spoke Catalan, a neo-Latin tongue. Galician, close to Portuguese, was used in Galicia, in the northwest corner of Spain. The Basques in northern Spain spoke Basque, a pre-Roman language unrelated to any other known tongue and using an ancient script. Bable, a form of Old Castilian was spoken in Asturias (northwest), and Valencian, a dialect of Catalan, was used by inhabitants of the eastern province of Valencia.

#### **10<sup>R</sup> RELIGIONS**

Before 1978, Roman Catholicism was the official religion of Spain, but the constitution of 1978 established the principles of religious freedom and separation of church and state. The Roman Catholic Church does, however, continue to maintain certain privileges from the state. In 1998, government statistics indicated



LOCATION: 36° to 43°47' N; 3°19' E to 9°30' W. BOUNDARY LENGTHS: France, 623 kilometers (387 miles); Andorra, 65 kilometers (40 miles); Mediterranean coastline, 1,670 kilometers (1,038 miles); Gibraltar, 1 kilometer (0.6 miles); Portugal, 1,214 kilometers (754 miles); Atlantic and Bay of Biscay coastlines, 2,234 kilometers (1,388 miles). The Balearic Islands extend from 1°12' to 4°19' E and 38°38' to 40°5' N; coastline, 910 kilometers (565 miles). The Canary Islands, 1,400 kilometers (900 miles) to the southwest, extend from 13°20' to 18°19' W and 27°38' to 29°25' N; coastline, 1,126 kilometers (700 miles). TERRITORIAL SEA LIMIT: 12 miles.

that at least 93% of the population was Roman Catholic. However, in a poll conducted by the Center for Sociological Investigations in February 2002, only about 82% of respondents were nominally Catholic, with only 19% claiming to participate actively in church activities. In the same survey, 10% claimed to be nonbelievers or agnostics and 4% claimed to be atheists. Protestants, numbering about 350,000, are represented by the Federation of Evangelical Religious Entities. The Federation of Spanish Islamic Entities (FEERI), located in Cordoba, reports that there are more than 450,000 Muslims, not counting illegal immigrants (who could total a quarter million). There are about 25,000 Jews registered; however, as many as 50,000 attend Jewish religious services. In addition, about 200,000 who profess Roman Catholicism still keep some Jewish practices; these people are descendants of the Marranos, the Spanish term for those who officially converted to Christianity but secretly practiced Judaism for centuries after all professing Jews were expelled from Spain in 1492. There are also 3,000 registered Buddhists, but authorities claim there are at least three times that many in practice.

## 11 TRANSPORTATION

In 2002, Spain had an estimated 346,858 km (215,538 mi) of roadways, of which 343,389 km (213,382 mi) were paved highways, including 9,063 km (5,632 mi) of expressways. The Mediterranean and Cantábrico routes are the most important. There were 16,011,200 passenger cars and 3,271,000 commercial vehicles in 2000.

In 2002, the National Spanish Railway Network encompassed 15,171 km (9,427 mi) of track, of which 6,434 km (3,998 mi) were electrified.

Of Spain's 200 ports, 26 are of commercial significance. The largest are Barcelona, Tarragona, and Cartagena on the Mediterranean, Algeciras on the Strait of Gibraltar, La Coruña on the Atlantic, and Las Palmas and Santa Cruz de Tenerife in the Canaries. The port of Bilbao, on the Bay of Biscay, can accommodate tankers of up to 500,000 tons. Substantial improvements were made during the 1970s at Gijón, Huelva, and Valencia. Scheduled ferry services connect Spain with neighboring

countries and North Africa. In 2002, the merchant fleet was comprised of 144 vessels, totaling 1,364,751 GRT.

Spain had 133 airports and airfields in 2001, 93 of which had paved runways. Principal airports include Alicante, Prat at Barcelona, Ibiza, Lanzarote, Gran Canaria at Las Palmas, Barajas at Madrid, Malaga, Menorca, Son San Juan at Palma Mallorca, and Valencia. The state-owned Iberia Air Lines has regular connections with 50 countries and 89 cities in Europe, Africa, Asia (including the Middle East), and the Western Hemisphere. Other Spanish airlines are Aviaco, Air Europa, Viva Air, Binter Canarias, and Spanair. In 2001, 41,469,800 passengers were carried on domestic and international flights, and 879 million ton-km (546 million ton-mi) of freight

## 12 HISTORY

Archaeological findings indicate that the region now known as Spain has been inhabited for thousands of years. A shrine near Santander, discovered in 1981, is believed to be over 14,000 years old, and the paintings discovered in the nearby caves of Altamira in 1879 are of comparable antiquity. The recorded history of Spain begins about 1000 BC, when the prehistoric Iberian culture was transformed by the invasion of Celtic tribes from the north and the coming of Phoenician and Greek colonists to the Spanish coast. From the 6th to the 2nd century BC, Carthage controlled the Iberian Peninsula up to the Ebro River; from 133 BC, with the fall of Numantia, until the barbarian invasions of the 5th century AD, Rome held Hispania, from which the name Spain is derived. During the Roman period, cities and roads were built, and Christianity and Latin, the language from which Spanish originated, were introduced. In the 5th century, the Visigoths, or western Goths, settled in Spain, dominating the country until 711, when the invading Moors defeated King Roderick. All of Spain, except for a few northern districts, knew Muslim rule for periods ranging from 300 to 800 years. Under Islam, a rich civilization arose, characterized by prosperous cities, industries, and agriculture and by brilliant writers, philosophers, and physicians, including Jews as well as Muslims. Throughout this period (711–1492), however, Christian Spain waged intermittent and local war against the Moors. The most prominent figure in this battle was El Cid, who fought for both Christians and Moors in the 11th century. By the 13th century, Muslim rule was restricted to the south of Spain. In 1492, Granada, the last Moorish stronghold on Spanish soil, fell, and Spain was unified under Ferdinand II of Aragón and Isabella I of Castile, the “Catholic Sovereigns.” Until then, Aragón (consisting of Aragón, Catalonia, Valencia, and the Balearic Islands) had been an independent kingdom, which had expanded toward the eastern Mediterranean, incorporating Sicily and Naples, and had competed with Genoa and Venice. In order to strengthen the unity of the new state, Moors and Jews were expelled from Spain; Catholic converts who chose to stay were subject to the terrors of the Inquisition if suspected of practicing their former religions. The year 1492 also witnessed the official European discovery of the Americas by Christopher Columbus, sailing under the Castilian flag. In 1519, Ferdinand Magellan, a Portuguese in the service of Spain, began the first circumnavigation of the world, completed in 1522 by Juan Sebastián Elcano.

The 16th century, particularly under Charles I, who was also Holy Roman Emperor Charles V, was the golden age of Spain: its empire in the Americas produced vast wealth; its arts flourished; its fleet ruled the high seas; and its armies were the strongest in Europe. By the latter part of the 16th century, however, under Philip II, the toll of religious wars in Europe and the flow of people and resources to the New World had drained the strength of the Spanish nation; in 1588, the “invincible” Spanish Armada was defeated by England. Spain’s continental power was ended by wars with England, the Netherlands, and France in the 17th century and by the War of the Spanish Succession (1701–14),

which also established the Bourbon (Borbón) dynasty in Spain. In 1808, the enfeebled Spanish monarchy was temporarily ended, and Napoleon Bonaparte’s brother Joseph was proclaimed king of Spain. On 2 May 1808, however, the Spanish people revolted and, later assisted by the British, drove the French from Spain. In the post-Napoleonic period, the Bourbons were restored to the Spanish throne, but a spirit of liberalism, symbolized by the 1812 Constitution of Cádiz, remained strong.

Much of the 19th and early 20th centuries was consumed in passionate struggles between radical republicanism and absolute monarchy. Abroad, imperial Spain lost most of its dominions in the Western Hemisphere as a result of colonial rebellions in the first half of the 19th century; Cuba, Puerto Rico, and the Philippines were lost as a result of the Spanish-American War in 1898. Spain remained neutral in World War I but in the postwar period engaged in extensive military action to maintain its colonial possessions in Morocco.

The constitution of December 1931 defined Spain as a “democratic republic of workers,” with “no official religion,” respecting the “rules of international law . . . renouncing war as an instrument of national policy and recognizing the principle of regional autonomy.” Neither right nor left had a parliamentary majority, and on the whole the coalition governments were ineffective. On 17 July 1936, an army revolt against the republic took place in Spanish Morocco. On the following day, Gen. Francisco Franco landed in Spain, and for the next two and a half years, until 31 March 1939, Spain was ravaged by civil war. The two contending parties were the Republicans, made up partly of democrats and partly of antidemocratic left-wing groups, and the rebels (Nationalists), who favored the establishment of a right-wing dictatorship. Almost from the beginning, a number of foreign countries intervened. Germany and Italy furnished manpower and armaments to the Nationalists, while the USSR, Czechoslovakia, and Mexico supported the Republicans. Finally the Republicans were defeated, and General Franco formed a corporative state. Under the Franco regime, Spain gave aid to the Axis powers in World War II but was itself a nonbelligerent. Early defeats in the Moroccan campaign paved the way in 1923 for the benevolent dictatorship of Primo de Rivera, who successfully ended the war in 1927 and remained in power under the monarchy until 1930. In 1931, after municipal elections indicated a large urban vote in favor of a republic, Alfonso XIII left Spain and a republic was established.

### The Post War Years

Diplomatically isolated following the end of World War II, Spain in succeeding decades improved its international standing, in part by signing economic and military agreements with the United States in 1953 and 1963. Spain was admitted to the UN in 1955. While relations with its European neighbors approached normality, the repressive nature of the Franco regime kept Spain apart from the main social, political, and economic currents of postwar Western Europe.

On 22 July 1969, Juan Carlos de Borbón y Borbón was officially designated by Franco as his successor, to rule with the title of king; formally, Franco had been ruling as regent for the prince since 1947. On 20 November 1975, Gen. Franco died at the age of 82, thus ending a career that had dominated nearly four decades of Spanish history. Two days later, Juan Carlos I was sworn in as king. He reconfirmed Carlos Arias Navarro as prime minister on 5 December. Despite Juan Carlos I’s announcement, in early 1976, of a program of moderate political and social reform, the new government was received with widespread demonstrations by labor groups and Catalan and Basque separatists. Continued political unrest, coupled with a sharp rise in living costs, led ultimately to the king’s dismissal of Arias Navarro, who was replaced, on 7 July, by Adolfo Suárez González.

On 15 June 1977, the first democratic elections in Spain in 40 years took place, with the Union of the Democratic Center (Unión de Centro Democrático—UCD), headed by Suárez, winning a majority in the new Cortes. The Cortes prepared a new constitution (in many respects similar to that of 1931), which was approved by popular referendum and sanctioned by the king in December 1978. In the elections of March 1979, the UCD was again the victor, and in the April local elections it captured more than 75% of the municipalities.

When Suárez announced his resignation in January 1981, the king named Leopoldo Calvo Sotelo y Bustelo to the premiership. As the Cortes wavered over the appointment, a group of armed civil guards stormed parliament on 23 February and held more than 300 deputies hostage for 17 hours. The attempted coup was swiftly neutralized by the king, who secured the loyalty of other military commanders. The plotters were arrested, and Sotelo was swiftly confirmed. A year of political wrangling followed; by mid-1982 the UCD was in disarray, and Sotelo called new elections. In October 1982, the Spanish Socialist Worker's Party (Partido Socialista Obrero Español—PSOE), headed by Felipe González Márquez, won absolute majorities in both houses of parliament. The new government was characterized by its relative youthfulness—the average age of cabinet ministers was 41—and by the fact that its members had no links with the Franco dictatorship. In the 1986 and 1989 elections, the PSOE again won majorities in both houses of parliament. The PSOE failed to win a majority in 1993 but governed with the support of the Basque and Catalan nationalist parties.

A continuing problem since the late 1960s has been political violence, especially in the Basque region. Political murders and kidnappings, mainly perpetrated by the separatist Basque Nation and Liberty (Euzkadi ta Askatasuna), commonly known as ETA, by the Antifascist Resistance Groups (GRAPO), and by several right-wing groups, abated only slightly in recent years. Another uncertainty in Spain's political future was the role of the military. Several army officers were arrested in October 1982 on charges of plotting a pre-election coup, which reportedly had the backing of those involved in the February 1981 attempt. Spain joined NATO in 1982, but the membership question became so controversial that a referendum on it was held in March 1986; about two-thirds of the electorate voted, and 53% chose continued NATO membership. On 1 January of that year, Spain became a full member of the EC (now EU). In January 1988, the United States, acceding to Spain's demands, agreed to withdraw 72 jet fighters based near Madrid.

Spain received considerable recognition with the holding of the 1992 Summer Olympics in Barcelona, and Expo 92, a world's fair, in Sevilla. Other notable events included the designation of Madrid as the culture capital of Europe in 1992.

Throughout 1995–2000 Basque terrorists continued their attacks on civilian, police, and military targets and began to target more visible political targets. In August of 1995, the terrorists came close to assassinating King Juan Carlos while he was vacationing on the island of Majorca, off the southeastern coast of Spain. In 1997 Basque terrorists killed an important Socialist official of one of the Basque regions. In 2000, Jose Luis Lopez de la Calle, a Madrid newspaper columnist who was outspoken in his criticism of the Basque group, ETA, was shot to death outside his home. Thousands marched in the streets to protest his killing.

In 1995 information came to light that revealed that from 1983 to 1987 government officials in cooperation with the Civil Guard (Spain's national police force) formed death squads to hunt down and kill Basque terrorists living in France. The squads were disbanded after France agreed to greater cooperation with Spanish authorities, but not before 27 suspected Basque terrorists had been killed. The existence of the death squads may have remained a secret, but two death squad members were caught in

the course of an attack and prosecuted for murder. At first government officials secured the silence of these two men by agreeing to make yearly payments to their wives, but by 1994 they felt that the story should no longer be hidden and revealed it to the world from their jail cells. Initially, Prime Minister Gonzalez had been charged with having knowledge of the attacks but an official inquiry into the charges concluded that they were groundless and he was completely exonerated.

Although French and Spanish security officials worked together to combat terrorism, violence attributed to the Basque terrorists continued into 2003. However, public support for Basque terrorists had waned nearly completely. A 1996 Basque execution of a kidnapped university professor brought out almost a half-million protesters in Madrid alone denouncing the Basque terrorists. A year later and again in 2000, assassinations allegedly carried out by Basque terrorists triggered large protests as well. The ETA was suspected of being behind bombings in several tourist resorts in June 2002 as an EU summit was held in Seville. In February 2003, Basque Socialist Party activist Joseba Pagazaurtundua was assassinated; the shooting was attributed to the ETA. Batasuna, the separatist Basque political party believed to be the political arm of the ETA (although it denies this charge), was banned by the Supreme Court in March 2003. This ban prevented Batasuna candidates from running in municipal elections in May 2003.

As Spain attempts to hold itself together against regional separatism, it joined with seven other nations in 1995 to create a passport-free zone that allowed much greater mobility between them. Spain also rejoined the NATO Military Command in the mid-1990s, making it once again a full member of the alliance. The adjustments to Spain's economy carried out in the mid- and late-1990s were successful. As a result, Spain was one of the 11 countries that joined together in launching the euro, the European Union's single currency, on 1 January 1999. (Greece joined shortly thereafter, bringing the number of countries in the euro zone to 12.)

On 11 July 2002, 12 Moroccan frontier guards landed on the island of Perejil, which is claimed by Spain, and claimed it as Moroccan territory. Spain's Prime Minister José María Aznar opposed the occupation, and sent troops to evacuate the Moroccan guards. Diplomatic relations between Spain and Morocco improved in December 2002, when plans were made for the return of each state's ambassadors.

During the months following the 8 November 2002 passage of UN Security Council resolution 1441, which called on Iraq to disarm itself of weapons of mass destruction, Aznar affirmed Spain's support for the United States and British position on the use of military force, to force Iraq to disarm. Over 90% of Spain's citizens were against a war in Iraq, which began on 19 March 2003, and Spain's pro-US stance alienated France and Germany, among other nations opposing the use of military force. Spain did not commit combat troops to fight alongside US and British forces, but it sent 900 troops trained in medical support and anti-mine specialties to assist the coalition forces.

### 13 GOVERNMENT

Between 1966 and 1978, Spain was governed under the Organic Law of the Spanish State. A new constitution, approved by the Cortes on 31 October 1978 and by the electorate in a national referendum on 6 December, and ratified by King Juan Carlos I on 27 December 1978, repealed all the laws of the Franco regime and confirmed Spain as a parliamentary monarchy. It also guaranteed the democratic functioning of all political parties, disestablished the Roman Catholic Church, and recognized the right to autonomy of distinct nationalities and regions.

According to the constitution, the king is the head of state, symbolizing its unity. Legislative power is vested in the Cortes Generales (General Courts), consisting of two chambers: the

Congreso de los Diputados (Congress of Deputies) with 350 members (deputies) in 2003; and the Senado (Senate) with 259 members (senators) the same year. All deputies and 208 of the senators are popularly elected to four-year terms under universal adult suffrage. The remaining senators (51) are chosen by the assemblies in the 17 autonomous regions. The government, which is answerable to the congress, consists of the president (prime minister), vice president, and ministers, all appointed by the king. The supreme consultative organ of government is the Council of State. Also established by the constitution is the function of “defender of the people,” inspired by medieval tradition and by the Scandinavian ombudsman. Suffrage is universal at age 18.

## 14 POLITICAL PARTIES

The Falange, known officially as the Nationalist Movement, was the only legally functioning party in Spain during the Franco regime. Founded in 1933 by José Antonio Primo de Rivera, it dated in its later form from 1937, when various right-wing groups were united under Gen. Franco. Nationalists, monarchists, and national syndicalists (Fascists) were the leading groups within the Falange. It lost some of its former power and much of its prestige during the last decades of Franco's regime. On 21 December 1974, the Franco government passed a law conferring a limited right of political association. On 9 June 1976, after Franco's death, the Cortes voted to legalize political parties; by the 1977 parliamentary elections, no fewer than 156 political parties were organized, into 10 national coalitions and 12 regional alliances.

The Spanish political scene is characterized by changing parties and shifting alliances. The Union of the Democratic Center (Unión de Centro Democrático—UCD) was formed as an electoral coalition of smaller moderate parties. From 1977 to 1982, the UCD was the governing political body, headed first by Adolfo Suárez González and then by Leopoldo Calvo Sotelo y Bustelo. In late 1981, the UCD began to disintegrate; it won only 8% of the vote in the 1982 elections and was dissolved in February 1983. A new centrist party, the Democratic and Social Center (Centro Democrático y Social—CDS), was created in 1982. The Spanish Socialist Worker's Party (Partido Socialista Obrero Español—PSOE), which traces its lineage to the late 19th century, won absolute majorities in both chambers of the Cortes in October 1982 and June 1986.

The right is represented by the Popular Party or PP, embracing the Alianza Popular, the Christian Democratic Partido Demócrata Popular, and the Partido Liberal; the coalition took 26% of the 1986 vote. An extreme rightist party, New Force (Fuerza Nueva), lost its only seat in parliament in 1982 and thereupon dissolved. The Communist Party (Partido Comunista—PC), legalized in 1977, was one of the most outspoken “Eurocommunist” parties in the late 1970s, harshly criticizing the former USSR for human rights abuses. In the 1986 election, the PC formed part of the United Left coalition (Izquierda Unida—IU), which included a rival Communist faction and several socialist parties; the IU's share of the vote was 4.6%. Nationalist parties function in Catalonia, Andalucía, the Basque Provinces, and other areas. The most powerful are the Catalan Convergence and Union (CIU), the Basque Nationalists (PNV), and the Canaries Coalition (CC).

Despite charges of corruption and economic mismanagement, the PSOE secured electoral victories in 1989 and 1993; however, the party finished 17 seats short of a parliamentary majority in 1993. A noticeable shift toward the conservative PP was evident with a 34-seat gain between 1989 and 1993. PSOE secretary-general Felipe Gonzalez Marquez received endorsement for a fourth term as prime minister, receiving support from the small Basque and Catalan nationalist parties.

In 1996, however, Gonzalez was turned out of power by José María Aznar, a young conservative leader with little international

visibility. Aznar, as leader of PP, won reelection as prime minister in the March 2000 elections, the first in which a center-right party won majority control of the government outright.

The results of the March 2000 election for the Congress of Deputies were as follows: PP, 183; PSOE, 125; IU, 8; CIU, 15; PNV, 7; CC, 4; and others, 8. Election results for the Senate were as follows: PP, 127; PSOE, 61; CIU, 8; PNV, 6; IU, 0; CC, 5; PIL (Party of Independents from Lanzarote), 1.

## 15 LOCAL GOVERNMENT

Spain is divided into 17 autonomous regions, each of which has an elected assembly and a governor appointed by the central government. Municipalities are gradually becoming consolidated; their number had declined to about 8,000 by 2003. Each municipality has a mayor (*alcalde*) and councilmen (*concejales*); the councilmen, directly elected by the people, elect the mayors. Fifty-one of the 259 members of the Senate are chosen by the regional assemblies.

The statutes governing the Basque and Catalan autonomous communities, providing for regional high courts and legislative assemblies, were approved by referendum in October 1979; the statutes for Galicia in December 1980; and those for Andalucía in October 1981. Autonomy statutes for the other 11 historic regions of continental Spain and the Balearic and Canary Islands were subsequently approved and a regular electoral process begun.

Aznar's Popular Party did well in municipal elections held on 25 May 2003, including winning the mayoral race in Madrid.

## 16 JUDICIAL SYSTEM

According to the 1978 constitution, the judiciary is independent and subject only to the rule of law. The highest judicial body is the Supreme Court (*Tribunal Supremo*), the president of which is nominated by the 20 judges of the General Council of the Judiciary and appointed by the king.

Territorial high courts (*audiencias*) are the courts of last appeal in the 17 regions of the country; provincial audiencias serve as appellate courts in civil matters and as courts of first instance in criminal cases. On the lowest level are the judges of the first instance and instruction, district judges, and justices of the peace.

The National High Court (*Audiencia Nacional*), created in 1977, has jurisdiction over criminal cases that transgress regional boundaries and over civil cases involving the central state administration. The constitution of 1978 also established the twelve-member Constitutional Court (*Tribunal Constitucional*), with competence to judge the constitutionality of laws and decide disputes between the central government and the autonomous regions. The European Court of Human Rights is the final arbiter in cases concerning human rights.

Defendants in criminal cases have the right to counsel at state expense if indigent. The constitution prohibits arbitrary arrest and detention. Suspects may be held for no more than three days without a judicial hearing.

A jury system was established in 1995, and a new penal code was enacted in 1996.

The constitution provides for the right to a fair public trial and the government respects this provision in practice.

## 17 ARMED FORCES

In 2002 the active armed forces totaled 177,950, of whom approximately 9,400 were women. Reservists numbered 328,500 for all three services. The 118,800-member army was armed with 682 main battle tanks. The navy had 26,950 members, including 700 naval aviators and 5,600 marines. Equipment included 1 aircraft carrier, 15 frigates, 8 submarines, 37 coastal and patrol combatants, and various mine warfare and transport vessels. The air force had 22,750 personnel and 198 combat aircraft. The civil guard numbered about 72,600. Spain provided troops to UN and



peacekeeping missions in six regions. In 2002 Spain spent \$8.6 billion on defense or 1.2% of GDP.

## 18 INTERNATIONAL COOPERATION

Spain, having joined the UN on 14 December 1955, participates in ECE, ECLAC, and all the non-regional specialized agencies. Spain became a full member of the OECD in 1959. In June 1970, Spain signed a trade agreement with the EU calling for a mutual reduction of tariffs over a six-year period; the nation became a full member of the EU in 1986. Spain is also a member of the Council of Europe. The entry of Spain into NATO was approved in 1982 and confirmed by referendum in 1986.

In the 1970s, accords for double nationality, cultural assistance, and technical cooperation were signed with the majority of Latin American countries. Spain has observer status in the OAS and the Andean Pact. In June 1975, Madrid was selected as permanent headquarters for the World Tourism Organization. Five years later, Madrid became the seat of the Conference on Security and Cooperation in Europe. Spain is a signatory of the Law of the Sea and a member of the WTO.

## 19 ECONOMY

Agriculture, livestock, and mining—the traditional economic mainstays—no longer occupy the greater part of the labor force or provide most of the exports. In order to offset the damage suffered by the industrial sector during the Civil War and to cope with the problems created by Spain's post-World War II isolation, the Franco regime concentrated its efforts on industrial expansion. Especially after 1953, the industrial sector expanded rapidly. In terms of per capita income, however, Spain still ranks among the lowest in Western Europe, with an estimated GDP (purchasing power parity) of \$18,900 per person in 2001. From 1974 through the early 1980s, the Spanish economy was adversely affected by international factors, especially oil price increases. Tourism is a major source of foreign exchange, and in 2000 was generating 10% of GDP (up from 3.3% in 1995) and employing, directly or indirectly, one eighth of the labor force. Spain is the world's second most popular tourist destination, after France. The annual GDP growth rate during 1974–77 was 3%, higher than that in other OECD countries, but the inflation rate reached 24% in 1977. Real GDP growth slowed to about 1.6% during 1980–85, averaged 3.5% between 1985 and 1992, but slowed to a yearly average of 1.3% between 1993–95. By 1998, however, it had increased to 3.5%, and in 1999 and 2000, averaged over 4%. The global economic slowdown after 2001 helped reduce GDP growth to 2.5% in 2001 and to 1.9% in 2002. Consumer prices rose 37% between 1989 and 1995, and unemployment rose from 17.3% to 21.3%, the highest in the EU. Macroeconomic improvements from 1995 to 1998, however, were sufficient for Spain to be included in the first group of EU members to enter the European Monetary Union (EMU) in 1999. By 1998 inflation had been reduced to 1.8%. From 1999 to 2002, inflation was held to between 2% and 4%, although the inflation differential with the rest of the euro area persisted. Unemployment fell to 18.7% in 1998 and then to 15.7% in 1999. Although still quite high, unemployment continued to fall—to 13.9% in 2000 and 10.5% in 2001—before registering an increase to 11.2% in 2002.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Spain's gross domestic product (GDP) was estimated at \$828 billion. The per capita GDP was estimated at \$20,700. The annual growth rate of GDP was estimated at 2%. The average inflation rate in 2002 was 3%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of

exchange. It was estimated that agriculture accounted for 4% of GDP, industry 31%, and services 65%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$3,417 million or about \$86 per capita and accounted for approximately 0.6% of GDP. Worker remittances in 2001 totaled \$3,665 million.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$10,467. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 1%. Approximately 33% of household consumption was spent on food, 11% on fuel, 3% on health care, and 5% on education. The richest 10% of the population accounted for approximately 25.2% of household consumption and the poorest 10% approximately 2.8%.

## 21 LABOR

In 2001, the labor force totaled about 17 million. As of that year, the labor force was distributed as follows: services, 64%; industry, 29%; and agriculture, 7%. Employment in agriculture has been in steady decline; many farm workers have been absorbed by construction and industry. Unemployment averaged about 22% during 1997, but had fallen to 11% by 2002.

At the end of the Civil War, a system of national, or vertical, syndicates was formed through which the government controlled industry and labor. Almost all employees and employers were required to join one of the National Syndical Organization's 22 syndicates, each of which covered a basic field of industry or agriculture. Collective bargaining was introduced in 1958. Strikes, though prohibited, became increasingly common during the late 1960s and early 1970s, and a law of May 1975 legalized work stoppages under limited conditions. The constitution of 1978 guarantees the freedom to form unions and the right to strike. The main trade unions are the General Union of Workers (Socialist), the Workers' Commissions (Communist), the Workers' Trade Union (independent), the Solidarity of Basque Workers (independent), and the National Confederation of Labor (anarchist).

In 2002, approximately 15% of the workforce was unionized. The law provides for the right to bargain collectively, and unions exercise this right in practice. Discrimination against union activity is illegal.

The monthly minimum wage was \$394 in 2002. This wage provides a decent standard of living for a family. The regular workweek was 40 hours, with a mandated 36-hour rest period. In addition, workers receive 12 paid holidays per year and one month's paid vacation. The legal minimum age for employment was 16 years, and this is enforced by the Ministry of Labor and Social Affairs.

## 22 AGRICULTURE

During 1970–2000, the proportion of the GDP from agriculture fell from 11.3% to 4%, and the proportion of workers employed in agriculture decreased from 26% to about 7%. Arable cropland in 1998 covered 14,285,000 hectares (35,298,000 acres), of which 67% was used for field crops, and 33% planted with olive trees, vineyards, and orchards.

Agricultural commodities harvested in 1999 (in thousands of tons) and area harvested (in thousands of hectares) totaled wheat, 5,084 per 2,242; barley, 7,399 per 3,119; corn, 3,777 per 399; rice, 845 per 112; beans, dry, 24 per 20; sugar beets, 7,998 per 138; sunflower seeds, 556 per 874; grapes, 4,969 per 1,163; peaches, 987 per 23; potatoes, 3,312 per 135; and tomatoes, 3,840 per 64. Grapes are cultivated in every region; the most important olive groves are in Andalucía. Within the domestic

market, the use of sunflower oil and soybean oil has grown considerably.

Agricultural mechanization has been increasing steadily. In 1998 there were 841,932 tractors, and 49,729 harvester-threshers. The use of fertilizers has also increased. The Institute for Agrarian Development and Reform directly or indirectly regulates some 10 million hectares (25 million acres) of land, promoting intensive cultivation and irrigation to improve productivity.

### 23 ANIMAL HUSBANDRY

Spain's pastures cover about 10% of the total area. Because much of Spain is arid or semiarid, sheep are by far the most important domestic animals. In 2001, Spain's livestock population (in millions) included sheep, 24.4; hogs, 22.1; and cattle, 6.2. There also were 2.8 million goats, 248,000 horses, 140,000 asses, and 60,000 mules in 2001. Meat production that year included (in thousands of tons): pork, 2,292; poultry, 1,030; beef and veal, 642; and lamb and mutton, 237. In 2001, milk production was 6.4 million tons; 646,000 tons of eggs were also produced.

### 24 FISHING

Fishing is important, especially along the northern coastline. The Spanish fishing fleet is the largest within the European Union (EU). In mid-1996, the fleet totaled 18,323 vessels with a gross tonnage of about 506,738 tons. Some 17,300 vessels fish in EU waters, and 979 in international or third country waters (mostly in Moroccan territorial waters). The fishing industry employs about 80,000 sailors and 400,000 laborers, and contributed 1% to GDP in 1995.

In 2001, the total quantity of fish caught by Spanish vessels and landed in Spanish ports amounted to 932,000 tons (including non-edible fish). The main species landed in 2000 were (in thousands of tons): sardines, 81; yellowfin tuna, 57.2; skipjack tuna, 95.9; and anchovies, 28.1.

The most common species processed by the Spanish canning industry are: tuna, mussels, sardines, white tuna, cephalopod, mackerel, and anchovy. In 2000, Spain exported 99.9 million tons of canned fish, valued at \$293.4 million. Exports of crustaceans and mollusks that year were 149.9 million tons, worth \$392 million.

The main aquacultural commodities are mussels, trout, oysters, clams, and gilthead bream. Mussel production began in 1940 in northwestern Spain, and today there are thousands of floating mollusk beds found in many Spanish bays. Trout farming began in 1960, and is located in the north and northwest. In 2001, aquacultural production included 250,000 tons of mussels and 34,000 tons of trout. Spain is the world's second leading producer of mussels after China.

### 25 FORESTRY

Spain's forested area in 2000 was estimated at 14.37 million ha (35.5 million acres), of which 7.5 million ha (18.5 million acres) was dense timberland. The northern Cantabrian range accounts for about one-third of the timberland. In addition, Spain has 2.5 million ha (6.2 million acres) of woodlots typically comprised of oaks and cork trees, located mostly in the west (especially in Estremadura and Salamanca).

Roundwood production in 2001 was 15 million cu m (530 million cu ft), with about 15% used as fuel wood. Spain is one of the largest producers of cork, its most important commercial forest product. Scotch and maritime pine, as well as radiata pine, are the main softwood lumber species produced in Spain; eucalyptus and poplar are the principal hardwood species. In 2001, Spain imported \$1.37 billion in forest products, primarily softwood lumber (\$288 million), hardwood lumber (\$222 million), and hardwood logs (\$183 million).

## 26 MINING

Spain had some of the most mineralized territory in Western Europe, including the volcanic-hosted massive sulfide (VMS) deposits of the Iberian Pyrite Belt (IPB) of southern Spain. The IPB alone was estimated to have yielded 1.7 billion tons of sulfides, and more than 80 VMS deposits have been recorded in which individual tonnages were in excess of 1 million tons. Spain had the largest known reserves of celestite (Europe's sole producer, ranking second in world production, behind Mexico); was home to the richest mercury deposit in the world and one of the biggest open-pit zinc mines in Europe; and remained the leading producer of sepiolite, with 70% of world reserves (around Madrid). Spain was the largest EU producer of mine lead and zinc, and a major producer of pyrites, among other nonferrous and precious metals. Production far exceeded domestic consumption for most nonmetallic minerals, and Spain was a net exporter to other EU countries of lead, mercury, nonmetallic-mineral manufactured products, slate, other crude industrial minerals, and zinc. In terms of value, Spain was one of the leading EU countries, with one of its highest levels of self-sufficiency in mineral raw materials. Almost all known minerals were found in Spain, and mining was still a notable, though much diminished, factor in the economy—mining production in 2000 was at 91% of its 1990 level. Of the 100 minerals mined, 18 were produced in large quantities—bentonite, copper, fluorspar, glauberite, gold, iron, lead, magnetite, mercury, potash, pyrites, quartz, refractory argillite, sea and rock salt, sepiolitic salts, tin, tungsten, and zinc. Metals and chemicals were leading industries in 2002. The output of lead, zinc, and copper ores, all once important to the Spanish economy, has been declining. The number of active operations has halved in recent years, with copper production a notable casualty. Quarried mineral products, particularly quarried stone, accounted for a significant share of the value of all minerals produced.

Lead output was 51,000 tons in 2000 and 23,900 in 1997 (mainly from Jaén); zinc, 200,000 (Aznalcóllar, Lugo, Santander, and San Agustín); and copper, 23,312 tons (1,738 in 1999, and 37,002 in 1998). Germanium oxide, gold, silver, tin, titanium dioxide, and uranium also were mined. Navan Resources (Almagrera) Ltd. completed a capital works improvement program at Aguas Teñidas copper-lead-zinc mine, near Huelva, and was operating at the full 600,000-ton-per-year rate to help offset losses at its Almagrera Mine. Operations began in 2000 at the Carles gold deposit, with an expected rate of 600 kg per year—proven and probable reserves were 1.2 million tons with an average grade of 4.26 grams per ton of gold. The Los Frailes Mine, one of the biggest open-pit zinc mines in Europe, was closed in early 1998, after a large toxic spill; it restarted in mid-1999, and operated at a loss (its capacity was 3.5 million tons per year). The mercury-rich Almadén mines, which were at the heart of a long tradition of base-metal mining in Spain, were closed. Because of market conditions, iron mining was halted in 1997, after 588,000 tons (metal content) was produced in 1996. Iron ore was one of Spain's principal mineral assets, with 6 million tons of total reserves—in the north (Basque provinces, Asturias, León) and in Andalucía; the Alquife mine, in Granada, which was closed for maintenance, had a capacity of 4 million tons per year. Cambridge Mineral Resources PLC, of the United Kingdom, conditionally acquired three properties, of which two contiguous ones had advanced gold-enriched polymetallic deposits containing resources of 4.25 million tons at 5.76 grams per ton of gold, 116.9 grams per ton of silver, 1.58% copper, 1.48% lead, and 5.71% zinc in massive sulfides.

Among industrial minerals, Spain produced 9.97 million tons of marl, 8.7 million tons of dolomite (5 million tons in 1998), 3.69 million tons of ornamental marble (2.7 million tons in 1998), 2.5 million tons of limestone, 750,000 tons of

meerschau sepiolite (the largest deposit had more than 15 million tons, but high freight costs reduced profitability), 750,000 tons (gross weight) of pyrites (including cuprous, from Huelva and near Seville), down from 1.04 million tons in 1996, 653,000 tons of potash (in Barcelona), and 266,000 tons of calcined magnesite (from deposits in Navarra and Lugo), up from 211,000 in 1999, and 150,000 in 1996. Spain also produced barite, bromine, calcium carbonate, hydraulic cement, clays (including attapulgite, bentonite, and washed kaolin), diatomite, tripoli, feldspar, fluorspar (acid-grade and metallurgical grade), gypsum, anhydrite, andalusite kyanite, hydrated lime and quicklime, mica, nitrogen, mineral pigments (ocher and red iron oxide), pumice, salt (including rock, marine, and byproduct from potash), silica sand (including as byproduct of feldspar and kaolin production), soda ash, natural sulfate (including glauberite and thenardite), large quantities of all stone (including basalt, chalk, ornamental granite, ophite, phonolite, porphyry, quartz, quartzite, sandstone, serpentine, slate), strontium minerals, sulfur, talc, and steatite.

Minerals belonged to the state, and the industry comprised a mix of state-owned, state-and-privately owned, and privately owned companies, and was moving rapidly toward privatization. The economic development of certain areas, such as the Asturias and the Basque regions, was based on their mineral wealth, and mining continued to be an important current and potential source of income in these and other mineral-rich areas. The independent government of Andalucía completed its first mining development plan (1996–2000). Several old and new prospects were being evaluated, and exploration activity was high, particularly for feldspar (in Badajoz, Toledo, and Salamanca), garnet (Galicia), pyrites (Badajoz), and rutile and zircon (Cuidad Real). The main polymetallic deposits included Tharsis, Scotiel, Rio Tinto, and Aznalcollar.

## 27 ENERGY AND POWER

As of 2002 Spain was Europe's fifth-largest electricity market. Production of electricity in 2000 reached 210.3 billion kWh, as compared with 45.9 billion kWh in 1968. Fossil fuels accounted for 56.8%, hydropower 12.5%, nuclear power 27.8%, and other sources 2.9%. Per capita consumption increased from 420 kWh in 1955 to 3,545 kWh in 1993. As of 2000, consumption was 201.2 billion kWh. As of 2002, Spain had nine nuclear reactors in operation; the Vandellos-1 reactor was shut down in July 1990. Increased use of coal and natural gas for thermal plants is also envisioned, and increasing attention is being paid to solar energy. Known coal reserves were estimated at 728 million tons. Endesa, one of Spain's largest electricity companies, announced in 2001 that it would build a natural-gas-fired 400 MW combined-cycle generating plant in Huelva by 2004.

In 1964, oil was struck near Burgos, and in 1971, offshore deposits were located near Amposta, in Tarragona. In 2001, Spanish wells were producing an estimated 21,000 barrels of crude oil per day. Consumption, however, totaled 1.5 million barrels daily. Oil represented 73% of Spain's primary energy consumption. Natural gas accounted for over 11% of primary energy consumption in 1999, up from 2% in the 1970s. Gas consumption in 2000 was estimated at 17.3 billion cu m. The Maghreb-Europe pipeline carried its first gas delivery to Spain in 1996.

## 28 INDUSTRY

Industrial production grew by 1% in 2001, and industry accounted for around one third of GDP. The chief industrial sectors are food and beverages, energy, and transport materials. Chemical production, particularly of superphosphates, sulfuric acid, dyestuffs, and pharmaceutical products, is also significant. Of the heavy industries, iron and steel, centered mainly in Bilbao and Avilés, is the most important. Petroleum refinery production

capacity at Spain's nine refineries was 1,294,000 barrels per day in 2002. In 2001, 2,849,888 automobiles were produced, a 6% decline over 2000; in 2000, 22,586 heavy trucks were produced an 11% increase over 1999. Automobiles are Spain's leading export.

Prior to the 1990s wave of privatization, government participation in industry was through the National Industrial Institute (INI), which owned mining enterprises, oil refineries, steel and chemical plants, shipbuilding yards, and artificial fiber factories, or through Patrimonio. As of 2002, Telefonica, Gas Natural, and the petrochemical company Repsol had been privatized. Industries demonstrating significant growth in the early 2000s were metalworking industries, due to increased production in shipbuilding, data-processing equipment, and other transportation equipment. Other growth sectors included food processing, medical products and services, chemicals, computer equipment, electronics, construction and security equipment, cosmetics and jewelry, and industrial machinery. In 2002, the construction industry was aided by such public works projects as a high-speed train link between Madrid and Barcelona, and an increase in property development on the Mediterranean coast.

## 29 SCIENCE AND TECHNOLOGY

The Council for Scientific Research, founded in 1940, coordinates research in science and technology and operates numerous constituent research institutes in a wide variety of disciplines. The Royal Academy of Exact, Physical, and Natural Sciences, founded in 1916, is the nation's chief scientific academy. The National Science Museum and the National Railway Museum are located in Madrid, and two geology museums are located in Barcelona. Spain has 32 universities, colleges, and polytechnics offering courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 31% of university enrollment. In 1993, total expenditures on research and development amounted to 0.9% of GNP; 343 technicians and 1,305 scientists and engineers per one million people were engaged in research and development.

## 30 DOMESTIC TRADE

Madrid and Barcelona are the primary commercial hubs for distribution of goods throughout the country. Spain has no free ports, but free-zone privileges are granted at Barcelona, Bilbao, Cádiz, Vigo, and the Canary Islands. There are bonded warehouses at the larger ports. The government has established a market distribution program to regulate the flow of goods to and from the producing and consuming areas. Since 1972, wholesale market networks have been established in cities with more than 150,000 inhabitants. The National Consumption Institute promotes consumer cooperatives and credit unions.

A wide variety of shops are available in Spain, from small specialty boutiques to large department stores, shopping centers, and outlet stores. Franchises are becoming more popular throughout the country. As of 2002, there were about 940 franchise firms represented in the country, with national companies holding ownership of about 70% of them. Direct marketing and sales, particularly through mail order and television sales, are also gaining in popularity. A 16% value-added tax applies to most goods and services. This rate is reduced for some products, such as food, books, and medical supplies. Advertising is largely through newspapers, magazines, radio, and motion picture theaters.

Usual business hours are from 9 AM to 6 PM, Monday through Friday. Banks are open from 8:30 AM to 2:30 PM, Monday through Friday, and to 1 PM on Saturday. Stores are often open from 10 AM to 8 PM, Monday through Saturday.

### 31 FOREIGN TRADE

Traditionally, exports consisted mainly of agricultural products (chiefly wine, citrus fruits, olives and olive oil, and cork) and minerals. While agricultural products and minerals remain important, they have, since the 1960s, been overtaken by industrial exports. Imports habitually exceed exports by a large margin.

Of Spain's export commodities, transport-related items make up at least 23% of the total. Fruits, nuts, and vegetables are also exported in sizable amounts. The following shows the top ten exports:

	% OF COUNTRY TOTAL
Cars	15
Motor vehicle parts and accessories	5.2
Iron and steel	3.2
Refined petroleum products	3.2
Fruits and nuts	2.8
Textiles	2.6
Vegetables	2.2
Clay construction materials	1.6
Footwear	1.6
Polymers	1.4

In 2000 Spain's imports were distributed among the following categories:

Consumer goods	13.2%
Food	7.6%
Fuels	12.0%
Industrial supplies	25.9%
Machinery	19.3%
Transportation	21.5%
Other	0.5%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
France	22,034	26,145	-4,111
Germany	14,023	22,731	-8,708
Portugal	10,619	4,108	6,511
Italy	9,945	13,439	-3,494
United Kingdom	9,425	10,737	-1,312
United States	5,509	8,034	-2,525
Netherlands	4,189	5,721	-1,532
Belgium	3,079	4,865	-1,786
Japan	1,115	4,423	-3,317
China (inc. Hong Kong)	498	4,304	-3,806

### 32 BALANCE OF PAYMENTS

Tourism, remittances from Spaniards living abroad, investment income, and loans to the private sector have been the principal factors that help to offset recurrent trade deficits, especially deficits in merchandise trade and net investment income. Between 1992 and 1995 exports grew by 70% and imports grew by approximately the same amount. In 2000, Spain experienced a large increase in its trade deficit due in large measure to increased petroleum prices, the weakness of the euro, and decreased competitiveness.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Spain's exports was \$122.2 billion while imports totaled \$156.6 billion resulting in a trade deficit of \$34.4 billion.

The International Monetary Fund (IMF) reports that in 2001 Spain had exports of goods totaling \$117.6 billion and imports totaling \$149.1 billion. The services credit totaled \$57.8 billion and debit \$33.5 billion. The following table summarizes Spain's balance of payments as reported by the IMF for 2001 in millions of US dollars.

Current Account	-15,082
Balance on goods	-31,500
Balance on services	24,259
Balance on income	-9,546
Current transfers	1,705
Capital Account	4,960
Financial Account	15,886
Direct investment abroad	-27,704
Direct investment in Spain	21,540
Portfolio investment assets	-43,528
Portfolio investment liabilities	27,569
Other investment assets	10,196
Other investment liabilities	27,766
Net Errors and Omissions	-7,104
Reserves and Related Items	1,340

### 33 BANKING AND SECURITIES

The banking and credit structure centers on the Bank of Spain, the government's national bank of issue since 1874. The bank acts as the government depository as well as a banker's bank for discount and other operations. The European Central Bank determines monetary policy for the EU. Other "official" but privately owned banks are the Mortgage Bank of Spain, the Local Credit Bank of Spain, the Industrial Credit Bank, the Agricultural Credit Bank, and the External Credit Bank.

In 2002, the private banking system consisted of 146 banks, comprising national banks, industrial banks, regional banks, local banks, and foreign banks. The liberalization of the banking system and Spain's entry into the EC have raised the number and presence of foreign banks. During the process of financial liberalization required by the EU, the government tried to promote a series of mergers within the banking industry, which it hoped could enable the banks to compete more effectively. As a result, there were two major mergers: Banco de Vizcaya and Banco de Bilbao formed Banco Bilbao Vizcaya (BBV), and Banco Central and Banco Hispanoamericano merged to form Banco Central Hispanoamericano (BCH). The government also brought together all the state-owned banking institutions to form Corporación Bancaria de España, better known by its trade name Argentaria, whose most important component is Banco Exterior (BEX). The government subsequently privatized a 50% stake in Argentaria in 1993 and a further 25% in early 1996. Ultimately, the state sold its remaining 25% share in Argentaria, thereby leaving the banking sector entirely in private hands. In October 1999, BBV took over Argentaria to create Spain's largest banking group. The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$193.7 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$548.2 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.36%.

Spain has major stock exchanges in Madrid, Barcelona, Bilbao, and Valencia. These exchanges are open for a few hours a day, Tuesday through Friday. Since 1961, foreign investment in these exchanges has increased rapidly. The major commercial banks invest in the equity and debt securities of private firms and carry on brokerage businesses as well. Latibex, a Madrid-based stock exchange providing a market for the trading (in euros) of Latin American stocks, opened in late 1999. The exchange lists companies based in Latin American nations such as Argentina, Brazil, Chile, Columbia, and Venezuela.

### 34 INSURANCE

Insurance companies are supervised by the government through the Direccion General de Seguros. The Spanish insurance market is characterized by a relatively large number of insurers with one organization dominating the industry. Latest information

available indicates an insurance market in Spain with moderate penetration when compared to North America and Europe, especially for life products. Recently, however, Spanish insurance firms such as Euroseguros are taking advantage of linguistic, cultural, and historical ties and are expanding operations to Latin America. Compulsory insurance includes third-party automobile liability, workers' compensation, hunters', nuclear, and professional liability, and personal injury insurance. Workers' compensation and property insurance can only be obtained through the government. Spain's insurance market is made up of both local and foreign insurers, with the local insurers often owned by Spanish banks.

### 35 PUBLIC FINANCE

The public sector deficit in 1996 was equivalent to 4.3% of GDP (compared to 3.8% in 1993 and 4.4% in 1992). Because of Spain's desire to enter the European Monetary Union, it had to meet stringent limits on its public debt and finances, including a 3% debt-to-GDP ratio. The government trimmed the budget by reducing the civil service payroll and limiting transfers to government-owned companies.

The US Central Intelligence Agency (CIA) estimates that in 2000 Spain's central government took in revenues of approximately \$105 billion and had expenditures of \$109 billion including capital expenditures of \$12.8 billion. Overall, the government registered a deficit of approximately \$4 billion. External debt totaled \$90 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	105,000
Tax revenue	91.7%	96,327
Non-tax revenue	6.3%	6,565
Capital revenue	0.3%	360
Grants	1.7%	1,748
EXPENDITURES	100.0%	109,000
General public services	2.5%	2,776
Defense	3.2%	3,478
Public order and safety	2.9%	3,214
Education	3.5%	3,847
Health	5.9%	6,379
Social security	39.6%	43,200
Housing and community amenities	0.4%	417
Recreation, cultural, and religious affairs	0.5%	573
Economic affairs and services	4.7%	5,136
Other expenditures	24.4%	26,548
Interest payments	12.3%	13,432

### 36 TAXATION

The structure of the Spanish fiscal system was profoundly modified in 1977 and 1978. Currently income tax rates are determined according to the 1996 division of competence between the central government and the provinces. The progressive schedule of rates applied to taxable income has six brackets: 18% up to €3,678; 24% on the next increment of income up to €12,874; 28.3% on the next increment of income up to €25,134; 37.2% on the next increment of income up to €40,460; 45% on the next increment of income up to €67,434; and 48% on the increment of income above €67,434. There is also a wealth tax with a maximum rate of 2.5%

The basic corporation tax rate is 35%. A reduced rate of 30% is applied to companies with annual turnover of less than €3 million. Capital gains are taxed at 35%. Dividends from one resident company to another are subject to 25% withholding.

The main indirect tax is Spain's value-added tax (VAT), introduced 1 January 1986 with a standard rate of 12%, a reduced rate of 6% and an increased rate of 33%. In 2002, under changes effective since 1 January 1995, the standard rate is 16% and there are two reduced rates: 4% on basic foodstuffs, pharmaceuticals, social housing and books, newspapers and periodicals; and 7% on food, water supplies, medical equipment, waste disposal, agricultural inputs, social services, medical and dental care, renovation and repair to private houses, hairdressing and public transportation. Indirect taxes include levies on inheritances, documents, sales, special products (alcohol, petroleum, and others), luxury items, and fiscal monopolies. As a condition of entry into the EU, Spain introduced a value-added tax on 1 January 1986. It replaced several taxes—such as the turnover, luxury, and equalization taxes—and coexists with the remainder. As of 1996, the VAT rate was 16% reduced to 7% and 4% for basic necessities.

### 37 CUSTOMS AND DUTIES

Spain, a member of the European Union and the World Trade Organization, adheres to EU and GATT trading rules. Spain determines customs duties based on cost, insurance, and freight (CIF), and applies the EU Common External Tariff to non-EU imports. Most customs costs amount to 20-30% of CIF, including tariffs, value-added tax (16%), and customs agent and handling fees.

### 38 FOREIGN INVESTMENT

In keeping with the rest of the European Union, in recent years, the Spanish government has instituted a wholesale revision of its previously restrictive foreign investment laws. With the exception of strategic sectors, up to 100% foreign investment is permitted in all sectors of the Spanish economy. Restrictions remain for certain investments of over P500 million and some tax sheltered investments.

In 1998, foreign direct investment (FDI) inflow was nearly \$12 billion, up from \$7.7 billion in 1997, and peaking at \$37.5 billion in 2000. In 2001, FDI inflow fell to \$21.8 billion. From 1998 to 2001 FDI inflow averaged about \$19 billion a year, and in 2001 cumulative FDI stock totaled approximately \$157 billion. The largest sources of FDI inflows in 2001 were, in order, Belgium-Luxembourg, the Netherlands, France, Portugal, the United Kingdom, the United States (\$1.5 billion, down from \$11.24 billion in 2000), Germany, and Switzerland.

Outward FDI from Spain 1998 to 2001 averaged about \$31.1 billion, and in 2001 cumulative foreign stock held by Spaniards totaled about \$184 billion.

### 39 ECONOMIC DEVELOPMENT

After 1939, Spanish economic policy was characterized by the attempt to achieve economic self-sufficiency. This policy, largely imposed by Spain's position during World War II and the isolation to which Spain was subjected in the decade following 1945, was also favored by many Spanish political and business leaders. In 1959, following two decades of little or no overall growth, the Spanish government, acceding to reforms suggested by the International Monetary Fund (IMF), OECD, and IBRD and encouraged by the promise of foreign financial assistance, announced its acceptance of the so-called Stabilization Plan, intended to curb domestic inflation and adverse foreign payment balances.

Long-range planning began with Spain's first four-year development plan (1964-67), providing a total investment of P355 billion. The second four-year plan (1968-71) called for an investment of P553 billion, with an average annual growth of 5.5% in GNP. The third plan (1972-75) called for investments of P871 billion; drastic readjustments had to be made in 1975 to compensate for an economic slump brought on by increased

petroleum costs, a tourist slowdown, and a surge in imports. A fifth plan (1976–79) focused on development of energy resources, with investments to increase annually by 9% increments. A stabilization program introduced in 1977 included devaluation of the peseta and tightening of monetary policy. The economic plan of 1979–82 committed Spain to a market economy and rejected protectionism.

Accession to the EU generated increased foreign investment but also turned Spain's former trade surplus with the EU into a growing deficit: the lowering of tariffs boosted imports, but exports did not keep pace. The government responded by pursuing market liberalization and deregulation, in hopes of boosting productivity and efficiency to respond to EU competition. A number of projects, such as the construction of airports, highways, and a high-speed rail line between Madrid and Seville, received EU funding. To prepare Spain for European economic and monetary union, the government in 1992 planned to cut public spending. The currency was devalued three times in 1992–93. Additionally, Spain has been a principal beneficiary of the EU's "harmonization fund." This fund provides financial support to poorer EU nations to attempt to reduce the disparities in economic development.

After an economic downturn in the early and mid-1990s, the Spanish economy turned around to register a new dynamism characterized by strong growth rates and a rise in foreign investment sparked by increased liberalization. Moreover, unemployment dropped and inflation remained in check. Spain capped its success by entering the European Monetary Union (EMU) in 1999. Reducing the public sector deficit, decreasing unemployment, reforming labor laws and investment regulations, lowering inflation, and raising per capita gross domestic product (GDP) were all goals in the early 2000s. Economic growth was forecast at 1.8% in 2003, the highest of all the large EU economies. The construction sector was thriving in 2002, driven by higher levels of investment and public infrastructure projects.

#### 40 SOCIAL DEVELOPMENT

The social insurance system provides pensions for employees in industry and services, with a special system for the self-employed, farmers, domestic workers, seamen and coal miners. The system is funded through employee and employer contributions, and an annual government subsidy. The fund provides for health and maternity benefits, old age and incapacity insurance, a widow and widower pension, orphan pension, a family subsidy, workers' compensation, job-related disability payments, unemployment insurance and a funeral grant. Retirement is set at age 65, but is allowed at age 64 under certain conditions. Maternity benefits are payable for 16 weeks, and is applicable to adoption as well. Fathers may also take parental leave.

Discrimination against women in the workplace persists although it is prohibited by law. Traditional attitudes towards women leads to disparity in hiring practices and in pay. The female rate of unemployment is about twice that for men and the median salary for women was 30% lower than that of men. There are a growing number of women entering the medical and legal professions. Women take an active role in politics and both the President of the Senate and the Speaker of the Chamber of Deputies are women. The government takes steps to address the problems of domestic abuse and violence against women. The 1999 National Employment Action Plan gives priority to battered women who search for employment. The government is strongly committed to children's welfare and rights.

Roma minorities suffer from housing, education, and employment discrimination. The government provides mechanisms for legal redress for discrimination and harassment for Roma and other minorities. In addition, a growing number of right-wing extremist attacks against minorities have been reported in recent years.

Human rights abuses have been committed by both the government and Basque (ETA) separatist groups. The ETA has carried out killings and kidnapping, while the government has failed to prevent the mistreatment of prisoners.

#### 41 HEALTH

Following the adoption of the country's constitution, Spain's health care system underwent major reforms in the 1980s and 1990s. Instead of being organized directly as part of the social security system, it was transformed to the more decentralized National Health System. Coverage was extended further than before and the primary care network was reorganized. Spanish officials say that public contributions to the cost of health care must be limited in the face of potentially unlimited demand. As of 1999, total health care expenditure was estimated at 7% of GDP.

The public sector in health care is the largest and continues to grow. In 1991, there were 354 public hospitals, 149 private hospitals, and 312 private business hospitals. The public health sector contracts a significant number of beds from both types of private hospitals. As of 1999, there were an estimated 3.1 physicians and 3.9 hospital beds per 1,000 people. Recent programs have created special residences for elderly and retired people, eye clinics, a network of government health centers in the principal cities, and more than a dozen human tissue and organ banks for transplantation and research.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 9.3 and 9.2 per 1,000 people. In 1990–95, about 59% of married women (ages 15 to 49) were using contraception. Average life expectancy in 2000 was 78 years. The infant mortality rate was 4 per 1,000 live births, down from 38 in 1965. Immunization rates for children up to one year old in 1997 were: diphtheria, pertussis, and tetanus, 88%; polio, 88%; and measles, 90%.

Leading causes of death in 1990 were delineated as follows: communicable diseases and maternal/perinatal causes (45 per 100,000 people); noncommunicable diseases (410 per 100,000); and injuries (42 per 100,000). There were about 59 cases of tuberculosis per 100,000 reported in 1997. As of 1999 the number of people living with HIV/AIDS was estimated at 120,000 and deaths from AIDS that year were estimated at 2,000. HIV prevalence was 0.6 per 100 adults.

The smoking rates for both men and women in Spain are above the average of "high human development" countries as defined by the World Bank. In 1986–94, 58% of men and 27% of women were smokers. Tobacco consumption rose from 2.3 kg (5.1 lbs) a year per adult to 2.5 kg (5.5 lbs) a year per adult in 1995.

The likelihood of dying after 65 of heart disease during 1990–93 was below the highly industrialized country average at 235 (male) and 277 (female) per 1,000 people.

#### 42 HOUSING

A housing boom beginning around 1998–2001 saw the creation of over two million new houses with about 600,000 new houses built in 2000. In 2000, about 20% to 25% of the housing market was attributed to those building second homes/vacation homes. Preliminary results from the 2001 census indicate a total of over 14 million dwelling units nationwide.

#### 43 EDUCATION

According to the 1978 constitution, elementary education is compulsory and free, and university autonomy is recognized. During 1999, primary schools enrolled 2,567,012 pupils and had a pupil-teacher ratio of 15 to 1. In 1997, secondary schools had 3,852,102 pupils and approximately 275,000 teachers. In 2000, adult illiteracy was estimated at 2.3% (males, 1.4%; females, 3.2%). As of 1999, public expenditure on education was estimated at 4.5% of GDP.

Students in higher education numbered 1,684,445 in 1997. The Pontifical University of Salamanca, founded in 1254, is the oldest university, while the University of Madrid has the largest student body.

#### 44 LIBRARIES AND MUSEUMS

The National Library in Madrid (four million volumes), the Library of Catalonia in Barcelona (one million volumes), the university libraries of Santiago de Compostela (one million volumes), Salamanca (906,000 volumes), Barcelona (two million volumes), and Sevilla (777,000 volumes), Valladolid (500,000 volumes), and the public library in Toledo (with many imprints from the 15th to the 18th centuries) are among the most important collections. Spain also has 61 historical archives, among them the Archivo General de Indias in Sevilla, with 60,000 volumes and files, and the archives of Simancas, with 86,000 volumes and files. In total, Spain's public library collection holds more than 32.8 million volumes.

Spain has more than 600 museums. The Prado, in Madrid, with its extensive collection of Spanish art, is the most famous museum of Spain and one of the best in the world, featuring Picasso's world-famous *Guernica*. The National Archaeological Museum, also in Madrid, contains the prehistoric cave paintings of Altamira. The Museum of Modern Art, in Barcelona, houses excellent cubist and surrealist collections. There are also important art collections in the Escorial and Aranjuez palaces, near Madrid. Also in Madrid are the Museum of America, with artifacts from Spain's colonial holdings; the African Museum, with exhibits of many African cultures, especially Makonde art from Mozambique; and the Antiquities Collection of the Academy of History, founded in 1738, which houses Iberian and Visigoth artifacts, Islamic art, 4th century relics, including the Silver Dish of Theodosius, general European art, and 11th century documents. Barcelona also has the Museum of Ceramics, the Museum of Decorative Arts, a Picasso museum, the National Museum of Catalan Art, and the Museum of Perfume. The Guggenheim Museum Bilbao, designed by American architect Frank Gehry, opened in 1997 as a joint project of the Guggenheim Foundation and the Basque regional government. The innovative design of the 24,000-sq-m (257,000 sq-ft) metal-and-stone structure has won worldwide attention and acclaim.

#### 45 MEDIA

The government owns, operates, or supervises all internal telephone, telegraph, and radio and television service. Postal and telegraph facilities are provided by the Mail and Telecommunications Service. The National Telephone Co., an autonomous enterprise, operated 17 million main line telephones in 1999 with an additional 8.3 million mobile cellular phones in use. As of 1998, radio transmissions were broadcast over 208 AM and 715 FM stations by four government and six private networks, and four state-owned television networks. In 1995, there were 224 television stations. In 2000, there were about 333 radios and 591 television sets for every 1,000 people. The same year, there were about 143 personal computers in use for every 1,000 people, with 56 Internet service providers serving 7.38 million people in 2001.

Sunday newspaper editions have become increasingly common, with circulations often double the weekday runs. English-language papers are now printed in Madrid and Palma de Mallorca. There are also over 3,000 magazines, bulletins, and journals. Formerly, the Falange published the newspapers in all provincial capitals and controlled some 35% of the total national circulation; censorship was obligatory. In 1966, a new press law abolished censorship but established stiff penalties for editors who published news "contrary to the principles of the national interest"; offending newspapers could be seized.

The leading Spanish dailies, with 2002 weekday circulations, include the following:

	CITY	CIRCULATION
<i>Marca</i>	Madrid	474,400
<i>El País</i>	Madrid	413,000
<i>El Periódico de Cataluña</i>	Barcelona	380,000
ABC	Madrid and Sevilla	334,700
<i>El Mundo</i>	Madrid	229,000
<i>La Vanguardia</i>	Barcelona	208,000
<i>Diario 16</i>	Madrid	178,960

The 1978 constitution guarantees freedom of the press, and the government is said to uphold this freedom in practice.

#### 46 ORGANIZATIONS

Under the Falangist system of corporate organization, all branches of society were required to participate in business and in agricultural or professional syndicates. Despite this system, cooperatives emerged in various sectors of Spanish society, among them agricultural, consumer, credit, industrial, maritime, fishing, rural, housing, and educational organizations. Chambers of commerce function in all provincial capitals, and there are numerous industrial and trade associations. Trade and professional associations exist representing a broad range of occupations.

Cultural and educational organizations include the Royal Academy of Belles Lettres, the Scientific and Literary and Art Society, and the Society of Natural Sciences.

National youth organizations include Christian Democratic Youth of Spain, Socialist Youth, a national students' union, scouting programs, and chapters of YMCA/YWCA. National women's organizations include University Women of Spain and the National Council of Women in Spain.

International organizations with national chapters include Save the Children, Amnesty International, Greenpeace, and the Red Cross.

#### 47 TOURISM, TRAVEL, AND RECREATION

In 1998 Spain was Europe's second most popular tourist destination after France. In that year, 43,252,000 people visited Spain and tourism receipts totaled \$26.7 billion. Many are attracted to the country by its accessibility, warm climate, beaches, and relatively low costs. Among the principal tourist attractions are Madrid, with its museums, the Escorial Palace, and the nearby Valley of the Fallen (dead in the Civil War); Toledo, with its churches and its paintings by El Greco; the Emerald Coast around San Sebastián; the Costa Brava on the coast of Catalonia, north of Barcelona; Granada, with the Alhambra and the Generalife; Sevilla, with its cathedral and religious processions; and the Canary and Balearic islands.

Soccer is the most popular sport in Spain, and many cities have large soccer stadiums; Spain was host to the World Cup competition in 1982. Barcelona was the site of the 1992 Summer Olympics and in the same year, an International Exposition was held in Sevilla. Among traditional attractions are the bullfights, held in Madrid from April through October, and pelota, an indoor ball game in which spectators bet on the outcome.

Passports are required of all persons entering Spain, but US citizens may stay six months without a visa, and citizens of many other countries need no visas for stays of up to 90 days.

In 2000, tourist arrivals numbered 47,897,915 with receipts of \$31.4 billion. There were 676,672 hotel rooms, with 1,314,491 beds and an occupancy rate of 59%.

According to 2001 US government estimates, the cost of staying in Madrid was approximately \$236 per day. Barcelona was estimated to cost \$245 per day in travel expenses.

## 48 FAMOUS SPANIARDS

The Hispanic-Roman epoch produced the philosopher and dramatist Marcus (or Lucius) Annaeus Seneca (54 BC–AD 39), while the Gothic period was marked by the encyclopedist Isidore of Seville (560?–636), author of the *Etymologies*. Important Spanish thinkers of the Middle Ages included Averroës (Ibn Rushd, or Abu al-Walid Muhammad ibn Ahmad ibn Rushd, 1126–98), philosopher; Maimonides (Moses ben Maimon, also known as the Rambam, 1135–1204), the great Jewish physician and philosopher; Benjamin de Tudela (d.1173), geographer and historian; King Alfonso X (the Wise, 1226?–84), jurist, historian, musician, and astronomer; Juan Ruiz (1283?–1351?), archpriest of Hita, the greatest Spanish medieval poet; and Fernando de Rojas (1475?–1538?), a dramatic poet. El Cid (Rodrigo Díaz de Vivar, 1043?–99) has become the national hero of Spain for his fight against the Moors, although he also fought for them at times.

The golden age of Spanish exploration and conquest began with the Catholic Sovereigns, Ferdinand (1452–1516) and Isabella (1451–1504), in the late 15th century. The first great explorer for Spain was Christopher Columbus (Cristoforo Colombo or Cristóbal Colón, 1451–1506), a seaman of Genoese birth but possibly of Judeo-Catalán origin, who made four voyages of discovery to the Americas, the first landing occurring on 12 October 1492 on the island of Guanahani (probably on the island now called San Salvador) in the Bahamas. Among the later explorers, Alvar Núñez Cabeza de Vaca (1490?–1557?), Hernando de Soto (d.1542), and Francisco Vázquez de Coronado (1510–54) became famous for their explorations in the southern and southwestern parts of the present US; Juan Ponce de León (1460?–1521), for his travels in Florida; Vasco Núñez de Balboa (1475–1517), for his European discovery of the Pacific Ocean and claim of it for Spain; Francisco Pizarro (1470?–1541), for his conquest of Peru; and Hernán Cortés (1485–1547) for his conquest of Mexico. Juan de la Costa (1460?–1510) was a great cartographer of the period. Spanish power was at its greatest under Charles I (1500–1558), who was also Holy Roman Emperor Charles V. It began to decline under Philip II (1527–98).

In Spanish art, architecture, and literature, the great age was the 16th century and the early part of the 17th. Among the painters, El Greco (Domenikos Theotokopoulos, b.Crete, 1541–1614), Lo Spagnoletto (Jusepe de Ribera, 1589?–1652?), Francisco de Zurbarán (1598?–1660), Diego Rodriguez de Silva y Velázquez (1599–1660), and Bartolomé Esteban Murillo (1617–82) were the leading figures. In architecture, Juan de Herrera (1530–97), the designer of the royal palace, monastery, and tomb of the Escorial, and the baroque architect José Churriguera (1650–1723) are among the most important names. In literature, the dramatists Lope Félix de Vega Carpio (1562–1635) and Pedro Calderón de la Barca (1600–1681) and the novelist Miguel de Cervantes y Saavedra (1547–1616), author of *Don Quixote*, are immortal names. Other leading literary figures include the great poet Luis de Góngora y Argote (1561–1627), the satirist Francisco Gómez de Quevedo y Villegas (1580–1645), and the playwrights Tirso de Molina (Gabriel Téllez, 1571?–1648) and Mexican-born Juan Ruiz de Alarcón y Mendoza (1580?–1639). Outstanding personalities in the annals of the Roman Catholic Church are St. Ignatius de Loyola (Iñigo de Oñez y Loyola, 1491–1556), founder of the Jesuit order; St. Francis Xavier (Francisco Javier, 1506–52), Jesuit “apostle to the Indies”; and the great mystics St. Teresa of Ávila (Teresa de Cepeda y Ahumada, 1515–82) and St. John of the Cross (Juan de Yepes y Álvarez, 1542–91). The phenomenon of pulmonary blood circulation was discovered by Michael Servetus (Miguel Servet, 1511–53), a heretical theologian, while he was still a medical student.

The 16th century was also the golden age of Spanish music. Cristóbal de Morales (1500?–53) and Tomás Luis de Vittoria

(1549?–1611) were the greatest Spanish masters of sacred vocal polyphony. Important composers include Luis Milán (1500?–1565?), Antonio de Cabezón (1510–66), Alonso Mudarra (1510–80), and Miguel de Fuenllana. Juan Bermudo (1510?–55?), Francisco de Salinas (1513–90), and Diego Ortiz (c.1525–c.1570) were theorists of note. Two leading 18th-century composers in Spain were the Italians Domenico Scarlatti (1685–1757) and Luigi Boccherini (1743–1805). Padre Antonio Soler (1729–83) was strongly influenced by Scarlatti. Leading modern composers are Isaac Albéniz (1860–1909), Enrique Granados y Campina (1867–1916), Manuel du Falla (1876–1946), and Joaquín Turina (1882–1949). World-famous performers include the cellist and conductor Pablo Casals (1876–1973), the guitarist Andrés Segovia (1894–1987), operatic singers Victoria de los Angeles (Victoria Gómez Cima, b.1923) and Plácido Domingo (b.1941), and the pianist Alicia de Larrocha (b.1923).

Francisco Goya y Lucientes (1746–1828) was the outstanding Spanish painter and etcher of his time. Pablo Ruiz y Picasso (1881–1973) was perhaps the most powerful single influence on contemporary art; other major figures include Juan Gris (1887–1927), Joan Miró (1893–1983), and Salvador Dalí (1904–89), who, like Picasso, spent most of his creative life outside Spain. The sculptor Julio González (1876–1942) was noted for his work in iron. A leading architect was Antonio Gaudí (1852–1926); an influential modern architect was José Luis Sert (1902–83), dean of the Graduate School of Design at Harvard University for 16 years.

Miguel de Unamuno y Jugo (1864–1936) and José Ortega y Gasset (1883–1955) are highly regarded Spanish philosophers. Benito Pérez Galdos (1843–1920) was one of the greatest 19th-century novelists. Other Spanish novelists include Pedro Antonio de Alarcón (1833–91), Emilia Pardo Bazán (1852–1921), Vicente Blasco Ibáñez (1867–1928), Pío Baroja y Nessi (1872–1956), Ramón Pérez de Ayala (1880–1962), and Ramón José Sender (1902–82). Prominent dramatists include José Zorrilla y Moral (1817–93), José de Echegaray y Eizaguirre (1832–1916), and Jacinto Benavente y Martínez (1886–1954). The poets Juan Ramón Jiménez (1881–1958) and Vicente Aleixandre (1900–84) were winners of the Nobel Prize for literature in 1956 and 1977, respectively. Other outstanding poets are Gustavo Adolfo Bécquer (1836–70), Antonio Machado Ruiz (1875–1939), Pedro Salinas (1891–1951), Jorge Guillén (1893–1984), Dámaso Alonso (1898–1990), Federico García Lorca (1899–1936), Luis Cernuda (1902–63), and José Angel Valente (1929–2000). Ramón María del Valle-Inclán (1866–1936) was a novelist, dramatist, poet, and essayist. A noted novelist, essayist, and critic was Azorín (José Martínez Ruiz, 1876–1967). Salvador de Madariaga y Rojo (1886–1978) was an important cultural historian and former diplomat. Luis Buñuel (1900–83), who also lived in Mexico, was one of the world's leading film directors.

Santiago Ramón y Cajal (1852–1934), histologist, was awarded the first Nobel Prize for medicine in 1906. The physicians Gregorio Marañón (1887–1960) and Pedro Laín Entralgo (1908–2001) were scholars and humanists of distinction. Juan de la Cierva y Codorniu (1896–1937) invented the autogyro. Severo Ochoa (1905–93), who lived in the US, won the Nobel Prize for medicine in 1959.

Francisco Franco (1892–1975), the leader of the right-wing insurgency that led to the Spanish Civil War (1936–39), was chief of state during 1939–47 and lifetime regent of the Spanish monarchy after 1947. After Franco's death, King Juan Carlos I (b.1938) guided Spain through the transitional period between dictatorship and democracy.

## 49 DEPENDENCIES

Spanish “places of sovereignty” on the North African shore, which are part of metropolitan Spain subject to special statutes owing to their location, include Alborán Island (at 35°56' N and



3°2' w), Islas de Alhucemas (at 35°13' N and 3°52' w), Islas Chafarinas (at 35°10' N and 2°26' w), and Perejil (at 35°54' N and 5°25' w). The two major places of sovereignty are Ceuta and Melilla. Ceuta (19 sq km/7.3 sq mi; population 71,403 in 1993) is a fortified port on the Moroccan coast opposite Gibraltar. Melilla (12.3 sq km/4.7 sq mi; resident population 55,613 in 1993), on a rocky promontory on the Rif coast, is connected with the African mainland by a narrow isthmus. Melilla has been Spanish since 1496; Ceuta since 1580. Since 1956, Morocco has repeatedly advanced claims to these areas. Under the 1978 constitution, Ceuta and Melilla are represented in the Cortes by one deputy and two senators each.

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# SWEDEN

Kingdom of Sweden  
*Konungariket Sverige*

**CAPITAL:** Stockholm

**FLAG:** The national flag, dating from 1569 and employing a blue and gold motif used as early as the mid-14th century, consists of a gold cross with extended right horizontal on a blue field.

**ANTHEM:** *Du gamla, du fria, du fjällhöga nord* (*O Glorious Old Mountain-Crowned Land of the North*).

**MONETARY UNIT:** The krona (KR) is a paper currency of 100 öre. There are coins of 50 öre and 1, 2, 5, and 10 kronor, and notes of 5, 10, 20, 50, 100, 500, and 1,000 kronor. KR1 = \$0.1201 (or \$1 = KR8.33) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard, but some old local measures are still in use, notably the Swedish mile (10 kilometers).

**HOLIDAYS:** New Year's Day, 1 January; Epiphany, 6 January; Labor Day, 1 May; Midsummer Day, Saturday nearest 24 June; All Saints' Day, 5 November; Christmas, 25–26 December. Movable religious holidays include Good Friday, Easter Monday, Ascension, and Whitmonday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Fourth in size among the countries of Europe, Sweden is the largest of the Scandinavian countries, with about 15% of its total area situated north of the Arctic Circle. Extreme length N–S is 1,574 km (978 mi) and greatest breadth E–W is 499 km (310 mi). Sweden has a total area of 449,964 sq km (173,732 sq mi): land area, 410,934 sq km (158,663 sq mi); water area, 39,030 sq km (15,070 sq mi), including some 96,000 lakes. Comparatively, the area occupied by Sweden is slightly larger than the state of California. Sweden is bounded on the N and NE by Finland, on the E by the Gulf of Bothnia, on the SE by the Baltic Sea, on the SW by the Öresund, the Kattegat, and the Skagarrak, and on the W by Norway, with a total boundary length of 5,423 km (3,370 mi), of which 3,218 km (2,000 mi) is coastline. The two largest Swedish islands in the Baltic Sea are Gotland and Öland. Sweden's capital city, Stockholm, is located on the southeast Baltic Sea coast.

## <sup>2</sup>TOPOGRAPHY

Northern Sweden (Norrland) slopes from the Kjölen Mountains along the Norwegian frontier (with the high point at Kebnekaise, 2,111 m/6,926 ft) to the coast of the Gulf of Bothnia. The many rivers—notably the Göta, the Dal, the Angerman, the Ume, and the Lule—flow generally toward the southeast and have incised the plateau surface; waterfalls abound. Central Sweden, consisting of a down-faulted lowland, has several large lakes, of which Vänern (5,584 sq km/2,156 sq mi) is the largest in Europe outside the former USSR. To the south of the lake belt rises the upland of Smaland and its small but fertile appendage, Skane. The lowlands were once submerged and so acquired a cover of fertile, silty soils. Much of Sweden is composed of ancient rock; most ice erosion has resulted in generally poor sandy or stony soils. The best, most lime-rich soils are found in Skane, and this southernmost district is the leading agricultural region; it resembles Denmark in its physical endowments and development.

## <sup>3</sup>CLIMATE

Because of maritime influences, particularly the warm North Atlantic Drift and the prevailing westerly airstreams, Sweden has higher temperatures than its northerly latitude would suggest. Stockholm averages  $-3^{\circ}\text{C}$  ( $26^{\circ}\text{F}$ ) in February and  $18^{\circ}\text{C}$  ( $64^{\circ}\text{F}$ ) in July. As would be expected from its latitudinal extent, there is a wide divergence of climate between northern and southern Sweden: the north has a winter of more than seven months and a summer of less than three, while Skane in the south has a winter of about two months and a summer of more than four. The increasing shortness of summer northward is partly compensated for by comparatively high summer temperatures, the greater length of day, and the infrequency of summer cloud; the considerable cloud cover in winter reduces heat loss by radiation. Annual rainfall averages 61 cm (24 in) and is heaviest in the southwest and along the frontier between Norrland and Norway; the average rainfall for Lapland is about 30 cm (12 in) a year. The maximum rainfall occurs in late summer, and the minimum in early spring. There is considerable snowfall, and in the north snow remains on the ground for about half the year. Ice conditions in the surrounding seas, especially the Gulf of Bothnia, often are severe in winter and seriously interfere with navigation.

## <sup>4</sup>FLORA AND FAUNA

Vegetation ranges from Alpine-Arctic types in the north and upland areas to coniferous forests in the central regions and deciduous trees in the south. Black cock, woodcock, duck, partridge, swan, and many other varieties of birds are abundant. Fish and insects are plentiful.

## <sup>5</sup>ENVIRONMENT

Sweden's relatively slow population growth and an effective conservation movement have helped preserve the nation's extensive forest resources. By the end of 1985 there were 19 national parks covering 618,070 hectares (1,527,276 acres), 1,215 nature reserves of 870,748 hectares (2,151,653 acres), and 2,016 other protected landscape areas of 540,064 hectares

(1,334,520 acres). As of 2001, protected areas accounted for 8.1% of Sweden's total land area. However, about 15 million cu m of forestland are damaged each year.

In 1996, industrial carbon dioxide emissions exceeded 54 million metric tons. Other pollutants include sulphur air, nitrogen compounds, oil, VOCs (volatile organic compounds), radon, and methane. The pollution of the nation's water supply is also a significant problem. Factory effluents represent a threat to water quality, and airborne sulfur pollutants have so acidified more than 16,000 lakes that fish can no longer breed in them. Sweden has 178 cu km of renewable water resources with 4% used for farming and 30% used for industrial purposes. Principal responsibility for the environment is vested in the National Environmental Protection Agency.

One of the most controversial environmental questions was put to rest by a March 1980 referendum in which a small plurality of the electorate (39.3%) supported expansion of nuclear power to no more than 12 reactors by the mid-1980s, but with provisions for the nationalization of nuclear energy, for energy conservation, and for the phaseout of nuclear power within an estimated 20–25 years. As of 2002, only one reactor had been shut down and nuclear power was providing nearly half of the nation's electricity.

In 2001, five of the nation's mammal species, four bird species, and three plant species were endangered. Endangered species include the blue ground beetle and cerambyx longhorn. Protected fauna include the wild reindeer, golden eagle, and crane.

## 6 POPULATION

The population of Sweden in 2003 was estimated by the United Nations at 8,876,000, which placed it as number 83 in population among the 193 nations of the world. In that year approximately 17% of the population was over 65 years of age, with another 18% of the population under 15 years of age. There were 98 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.09%, with the projected population for the year 2015 at 8,983,000. The population density in 2002 was 20 per sq km (51 per sq mi). Approximately 80% of the population lives in the southern two-fifths of the country.

It was estimated by the Population Reference Bureau that 83% of the population lived in urban areas in 2001. The capital city, Stockholm, had a population of 1,578,000 in that year. Göteborg had a metropolitan population of 763,000. Other large cities include Malmö (242,706), Uppsala (181,191), Norrköping (82,639), Örebro (85,858), and Väster (98,233). According to the United Nations, the urban population growth rate for 2000–2005 was 0.3%.

## 7 MIGRATION

In the period 1865–1930, nearly 1,400,000 Swedes, or about one-fifth of the country's population, emigrated; over 80% went to the United States, and about 15% to other Nordic countries. The exodus ended by the 1930s, when resource development in Sweden started to keep pace with the population growth. In the 1960s there was a flood of immigration—especially by Finns—that increased the number of aliens in Sweden from 190,621 to 411,280. The number remained steady in the 1970s but increased, though at a slower rate, in the 1980s.

During 1998, 12,800 asylum applications were filed in Sweden. Main countries of origin included Iraq (3,843) and the former Yugoslavia (3,446). The recognition rate is low, but some 40% are usually given residence permits. As of 12 August 1999, 3,729 people had been evacuated from Macedonia to Sweden under the UNHCR/IOM Humanitarian Evacuation Programme. Evacuees, as well as Kosovars who had already sought asylum but whose cases were still pending, were granted temporary protection for an 11-month period, renewable for a maximum of

four years. The net migration rate in 1999 was 1.68 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The Swedes are primarily Scandinavians of Germanic origin. There is also a small the Lapp (Sami) population. The remaining 12% of the population is comprised of foreign-born or first-generation immigrants, including Finns in the north, Yugoslavs, Danes, Norwegians, Greeks, and Turks.

## 9 LANGUAGES

Swedish is a national language. In addition to the letters of the English language, it has *å*, *ä*, and *ö*. Swedish is closely related to Norwegian and Danish. Many Swedes speak English and German, and many more understand these languages. The Lapps speak their own language. There is also a spread of Finnish-speaking people from across the frontier.

## 10 RELIGIONS

For hundreds of years, the Church of Sweden, an Evangelical Lutheran church, represented the religion of state. However, in 2000, the Church and government placed into effect a formal separation of church and state, with a stipulation that the Church of Sweden will continue to receive a certain degree of state support. According to recent estimates, about 84% of the population belong to the Church of Sweden. Roman Catholics constitute about 0.02% of the populace, with about 150,000 members. About 100,000 people are members of Christian Orthodox churches, including Greek, Serbian, Syrian, Romanian, and Macedonian. The number of Muslims is at about 350,000, with about 100,000 active practitioners primarily of the Sunni and Shi'a branches. There are also about 20,000 Jews (Orthodox, Conservative, and Reform), with about half being active. Buddhists and Hindus number around 3,000 to 4,000 each. It is estimated that about 15% to 20% of the adult population are atheists.

## 11 TRANSPORTATION

As of 2002, the total length of highways was 210,760 km (130,966 mi), of which about 162,707 km (101,106 mi) were paved, including 1,428 km (887 mi) of expressways. As of 2000, there were 3,999,268 passenger cars and 388,763 commercial vehicles. In 1967, Sweden changed from left- to right-hand traffic. Sweden's railroad system of 12,821 km (7,967 mi) is operated by the state-owned Statens Järnvagar; 7,918 km (4,920 mi) of the track is electrified.

Since the 1960s, the number of ships in the merchant navy has decreased because of competition from low-cost shipping nations and, more recently, the slump in world trade. Sweden has an increasing number of special-purpose vessels, such as fruit tramps, ore carriers, and oil tankers. Most of the larger vessels, representing the majority of Sweden's commercial tonnage, are engaged in traffic that never touches home ports, and less than half of Swedish foreign trade is carried in Swedish ships. Göteborg, Stockholm, and Malmö, the three largest ports, and a number of smaller ports are well-equipped to handle large oceangoing vessels. In 2002, the Swedish merchant fleet consisted of 174 ships with a combined capacity of 2,255,344 GRT. Canals in central Sweden have opened the lakes to seagoing craft; inland waterways add up to 2,052 km (1,275 mi), navigable by small steamers and barges.

In 2001 there were 255 airports, 145 with paved runways. Arlanda international airport at Stockholm received its first jet aircraft in 1960; other principal airports are Sturup at Malmö and Landvetter at Göteborg. The Scandinavian Airlines System (SAS) is operated jointly by Sweden, Denmark, and Norway, each of which owns a 50% share of the company operating in its own territory; the other half in Sweden is owned by private investors.

Linjeflyg, a subsidiary of SAS, operates a domestic service to most of the larger cities and resorts. In 2001, 13,354,300 passengers were carried on scheduled domestic and international flights.

## 12 HISTORY

Sweden and the Swedes are first referred to in written records by the Roman historian Tacitus, who, in his *Germania* (AD 98), mentions the Suiones, a people "mighty in ships and arms." These people, also referred to as Svear, conquered their southern neighbors, the Gotar, merged with them, and extended their dominion over most of what is now central and southern Sweden. In the 9th and 10th centuries when Vikings from the Norwegian homeland traveled west to Iceland, Greenland and farther afield to Newfoundland, Vikings from eastern Sweden raided areas southeastward across Russia to Constantinople. Archeologists and historians hold that the descendants of one of their chieftains, Rurik, founded the Kievan Russian state. Some other settled regions and place-names in various parts of Europe also show Swedish influence through rune-stones found across Eastern Europe.

In the Viking era, the Swedish kingdom took shape but was not very centralized. Political power became more centralized with the advent of Christianity, which came gradually between the 9th and 11th centuries. During the 12th century, the Swedish kingdom consolidated internally and under the guise of the crusades began to expand into the Baltic, incorporating Finland, between 1150 and 1300. Among the institutions established in Sweden during the 12th and 13th centuries were Latin education, new modes and styles of architecture and literature, town life, and a more centralized monarchy with new standards in royal administration—all with significant economic, legal, and social implications.

Norway and Sweden were united in 1319 under the infant king Magnus VII, but Waldemar IV, King of Denmark, regained Skåne, the southern part of Sweden, and all the Scandinavian countries were united in the Kalmar Union under his daughter Margaret (Margrethe) in 1397. For over a century, Sweden resisted Danish rule, and the union was marked by internal tensions.

In 1523, following a war with Denmark whose notable feature was the Stortorget (Great Square) massacre in Stockholm where hundreds of Swedish nobles were executed, the Swedes elected Gustavus Vasa (Gustaf I) to the Swedish throne. A great king and the founder of modern Sweden, Gustavus made Lutheranism the state religion, established a hereditary monarchy, and organized a national army and navy. His successors incorporated Estonia and other areas in Eastern Europe. The growth of nationalism, the decline of the Hanseatic League's control of Baltic trade, and Protestantism contributed to the rise of Sweden in the following century.

Another great king and one of the world's outstanding military geniuses, Gustavus Adolphus (Gustaf II Adolf, r.1611–32), is generally regarded as the creator of the first modern army. He defeated Poland and conquered the rest of Livonia, and by winning a war with Russia acquired Ingermanland and Karelia. In the period of the Thirty Years' War (1618–48), Sweden was the foremost Protestant power on the Continent, and for the following half century the Baltic Sea became a Swedish lake. Although the king was killed at Lützen in 1632, his policies were carried on during the reign of his daughter Christina by the prime minister, Axel Oxenstierna. By terms of the Peace of Westphalia (1648) Sweden gained Pomerania and the archbishopric of Bremen, part of the Holy Roman Empire. Swedish expansionism resulted, in 1658, in the recapture of the southern Swedish provinces that Denmark had retained since the early 16th century. Renewed wars extended the Swedish frontier to the west coast while reducing Danish control over trade by taking away the eastern shore of the Öresund.



LOCATION: 55°20' to 69°4' N; 10°58' to 24°10' E. BOUNDARY LENGTHS: Finland, 586 kilometers (364 miles); coastline, 2,746 kilometers (1,706 miles); Norway, 1,619 kilometers (1,006 miles); Gotland Island coastline, 400 kilometers (249 miles); Öland Island coastline, 72 kilometers (45 miles). TERRITORIAL SEA LIMIT: 12 miles.

Under young Charles XII (r.1697–1718), Sweden fought the Great Northern War (1700–1721) against a coalition of Denmark, Poland, Saxony, and Russia. Sweden at first was militarily successful, but after a crushing defeat by Russian forces

under Peter the Great (Peter I) in 1709 at the Battle of Poltava, the nation lost territories to Russia, Prussia, and Hannover. Thereafter Sweden was a second-rate power. Throughout the 18th century there was internal dissension between those that favored increased political liberties and constitutionally shared political power and those who favored monarchical absolutism. In 1770, a power struggle between the nobility and the commoner estates, including the clergy, burghers and farmers, ended when Gustav III carried out a bloodless coup and restored absolutism. Gustavus III (r.1771–92), a poet, playwright, and patron of the arts and sciences, and founder of the Swedish Academy, was eventually assassinated by a group of disgruntled nobles.

Sweden entered the Napoleonic Wars in 1805, allying itself with Great Britain, Austria, and Russia against France. Russia switched sides in 1807, however, and the ensuing Russo-Swedish conflict (1808–9) resulted in the loss of Finland. King Gustavus IV was then overthrown by the army, and a more democratic constitution was adopted. In 1810, one of Napoleon's marshals, a Frenchman from Pau named Jean Baptiste Jules Bernadotte, was invited to become the heir to the Swedish throne. Three years later, he brought his adopted country once again over to the side of the allies against Napoleon in the last full-scale war fought by Sweden. His reward for being on the winning side of the Napoleonic wars was to wrest a reluctant Norway from Danish control. After a show of Swedish force, Norway was forced into political union with Sweden that lasted until 1905 when the union was largely peacefully dissolved.

Bernadotte assumed the name Charles John (Carl Johan) and succeeded to the Swedish throne in 1818 as Charles XIV John. The Bernadotte dynasty, which has reigned successively since 1818, gradually relinquished virtually all of its powers, which were assumed by the Riksdag, Sweden's parliament. Sweden has become one of the most progressive countries in the world. Industry was developed, the cooperative movement began to play an important part in the economy, and the Social Democratic Labor Party gained a dominant position in political life.

Carl XVI Gustaf has been king since the death of his grandfather, Gustav VI Adolf, in 1973. In September 1976, a coalition of three non-Socialist parties won a majority in parliamentary elections, ending 44 years of almost uninterrupted Social Democratic rule that had established a modern welfare state. The country's economic situation worsened, however, and the Social Democrats were returned to power in the elections of September 1982. Prime Minister Olof Palme, leader of the Social Democratic Party since 1969, was assassinated in February 1986. In the ensuing 17 years, investigators have been unable to establish a motive for the killing or to find the assassin.

### Sweden and Neutrality

Sweden remained neutral in both world wars; during World War II, however, Sweden had a difficult time maintaining neutrality as her Nordic neighbors were drawn into the conflict. Sweden served as a haven for refugees from the Nazis, allowed the Danish resistance movement to operate on its soil, and sent volunteers to assist Finland's fight against the Russians. On the other hand, Sweden was compelled to comply with German demands to transport its troops through Sweden to and from Nazi-occupied Norway. After the war, Sweden did not join NATO, as did its Scandinavian neighbors Norway and Denmark, but it did become a member of the UN in 1946 and participated in some of the European Recovery Program benefits. In 1953, Sweden joined with Denmark, Norway, Iceland, and, later, Finland to form the Nordic Council, and was instrumental in creating EFTA in 1960. Subsequently Sweden declined an invitation to join the EEC with Denmark, Ireland, and the UK; a free-trade agreement with the EEC was signed 22 July 1972. Sweden's post-WWII foreign policy has been termed "active neutrality." Neutral Sweden tried

to mediate in the Cold War confrontation between the Western and Soviet blocs and sought a major role in development assistance toward newly independent countries in the Third World.

The environment and nuclear energy were major political issues in the 1980s. In the 1990s and into the new century, the major concerns have been conflicts over immigration policies, the economy, and Sweden's relationship to the European Communities. Sweden's economic crisis led to large-scale public spending cuts by a center-right government. In 1991, Sweden applied for membership in the EC against a background of considerable opposition. In May 1993, the Riksdag altered Sweden's long-standing foreign policy of neutrality. In the future, neutrality would only be followed in time of war. The Riksdag also opened up the possibility of Sweden's participation in defense alliances, which remains a hotly debated issue in Sweden. In 1994, Swedes voted to join the EU and the country officially became a member on 1 January 1995. Sweden did not join the 11 EU countries participating in the launch of the new European currency, the euro, on 1 January 1999. Public opinion over the succeeding years softened on the issue of euro membership, however, and a referendum on joining the monetary union will take place on 14 September 2003. The ruling Social Democratic Party supports euro membership, but its coalition partners in 2003, the ex-communist Left Party and the Greens, were strongly opposed, as those parties feared Sweden would lose not only its currency, but its status as an advanced welfare state. Sweden's traditional policy of neutrality was strained in late October 1981 when a Soviet submarine ran aground inside a restricted military zone near the Swedish naval base at Karlskrona. The Swedish government protested this "flagrant violation of territorial rights" and produced reasons for believing that the submarine had been carrying nuclear weapons. Swedish naval vessels raised the damaged submarine and permitted it to return to the Soviet fleet in early November. In 1984, a Swedish military report stated that at least 10 "alien" submarines had been detected in Swedish waters.

Following the 11 September 2001 terrorist attacks on the United States, Sweden pledged support for US-led retaliation against terrorists. At the same time, Sweden has relaxed further its policy of neutrality, and some have speculated that it will eventually join NATO. Sweden since 1992 has been a member of NATO's "Partnership for Peace" program, and in 2001, some 1,000 Swedish troops were deployed to Kosovo. In February 2002, Prime Minister Göran Persson's government made the decision for Sweden to enter into military alliances and defensive pacts with other nations.

Scandinavian countries were divided over the issue of European support for a US-led war in Iraq that began in March 2003. Sweden supported the UN Security Council Resolution (1441) calling on Iraq to disarm itself of weapons of mass destruction, but it did not openly break with anti-war leaders France and Germany in the pre-war international diplomatic conflict over the use of military force to disarm Iraq. However, Sweden offered the United States its support in humanitarian efforts to rebuild Iraq in the aftermath of the war.

## 13 GOVERNMENT

Sweden developed as a constitutional monarchy under the constitution of 1809, which remained in effect until 1 January 1975, when a new instrument of government replaced it. Legislative authority is vested in the parliament (Riksdag). The monarch ceded involvement in power-brokering among the parties as early as 1917 when the Liberals and Social Democrats entered into a coalition. Today, the monarch performs only ceremonial duties as the official head of state; the monarch's last political duty, regular participation in cabinet meetings, was taken away under the most recent constitution. The king must

belong to the Lutheran Church; the throne was hereditary only for male descendants until 1980, when female descendants were granted the right to the throne.

The Riksdag was bicameral until 1971, when a unicameral body of 350 members serving three-year terms was established; the 1975 constitution provided for 349 members, and the parliamentary term was lengthened to four years in 1994. All members of the Riksdag are directly elected by universal suffrage at age 18. Voter turnout has traditionally been very high in Sweden, though in the 2002 election turnout dipped to 80.1% compared with turnout over 86% for the previous two elections. Foreign nationals may vote in regional and municipal elections. Elections at all levels are simultaneous and are held on the third Sunday of September every fourth year. The parties' share of the national vote is directly translated into seats in Riksdag. Interim national elections may be called by the government between regular elections, but the mandate of the interim election is valid only for the remaining portion of the regular four-year parliamentary term of office.

In Sweden's parliamentary system, executive power lies with the government, or cabinet, that is formed by the majority party in parliament or by a coalition of parties. Sweden has also functioned with a minority government in which the largest party does not enjoy a majority in parliament and must form ad-hoc coalitions with other parties in the Riksdag. The cabinet as a whole is responsible for all government decisions and must defend their legislative agenda in the plenary sessions of the Riksdag. A vote of no confidence by an absolute majority of the Riksdag allows for the forced resignation of individual ministers or of the entire cabinet. A vote of no confidence becomes moot if within one week of the vote if the government calls for new elections for the entire Riksdag.

Chief executive power is wielded by the prime minister, who is formally proposed by the speaker of the Riksdag and confirmed by vote of the parliamentary parties. The prime minister appoints a cabinet usually consisting of 18–20 members reflecting of the party or coalition of parties in power. Once a week the government takes decisions in a formal meeting presided over by the prime minister. The cabinet as a whole discusses all-important decisions prior to taking a decision. After a decision has been taken by the cabinet, the ministers practice collective responsibility in which all support the decision taken by the government. Ministers may issue directives but administrative decisions are taken by central boards, which have their respective spheres of activity delimited by the Riksdag.

National referenda on policy questions of national importance are permitted by the constitution. Sweden's parliament has the highest level of political representation of women in the world; ten of the 22 ministers in the 2003 government were women, and 45% of the Riksdag members are women.

## 14 POLITICAL PARTIES

The unicameral system and the electoral system of proportional representation have allowed almost exact equality in proportional representation among the constituencies on the national level and has produced a multi-party system. The constitution requires, however, that a party must gain at least 4% of the national popular vote or 12% in a constituency to be represented in the Riksdag. Sweden has for many years utilized the party list system in which the candidates for office from any given party are listed in order of party preference. If a party won ten seats in the Riksdag, the top 10 candidates from that party would be represented in parliament. In 1998, voters for the first time had the option of indicating which candidates on the party list whom they preferred to see elected to parliament and to local councils. A given candidate must receive at least 8% of his or her party's ballots in any electoral district to be moved to the top of

the party's nomination list. If no candidate attains the 8% threshold, the party's nomination list remains in force.

Sweden had a stable party system until the end of the 1980s. The parties of the political right include the Moderate (formerly Conservative) Party (Moderata Samlingspartiet, M), which favors tax reform and trimming the welfare state; the Liberal Party (Folkpartiet Liberalerna, FP), which is a traditional European liberal party; and the Center (formerly Agrarian) Party (Centerpartiet, C), which has in the past represented rural interests and has tried to refashion itself as an "alternative" centrist party favoring environmental issues. The left side of the Swedish political spectrum includes the dominant Social Democratic Party (Socialdemokratiska Arbetarepartiet, S), which is responsible for creating the welfare state and which gets considerable support from organized labor in Sweden; and the Left (formerly Communist Left) Party (Vänsterpartiet, V), which has distanced itself from its communist past and now advocates positions that champion gender equality and attracts voters that are wary of the Social Democrats' move toward the center. In 1988, the environmentalist Green Party (Miljöpartiet de Gröna, MP) joined the long-standing parties on the left represented in the Riksdag. In the 1991 election, two new parties emerged on the right, the Christian Democrats (Kristdemokraterna, KD) and the New Democracy Party (Ny Demokratiska, NyD).

Except for a brief period in 1936, the Social Democratic Labor Party was in power almost uninterruptedly from 1932 to 1976, either alone or in coalition. In 1945, the Social Democrats dissolved the wartime Grand Coalition Cabinet representing every party except the Left Party Communists and launched a program of social reform. Although inflation and other difficulties slowed the Social Democratic program, steadily mounting production encouraged the government to push through its huge social welfare program, which was sanctioned in principle by all major parties.

The Social Democrats held or controlled all parliamentary majorities until the elections of September 1976 when a non-Socialist coalition including the Center Party, the Moderates, and the Liberals won 180 of the 349 seats at stake. The center-right coalition retained control in the 1979 election with a reduced majority of 175 seats and a stronger showing for the Moderates. In the election on 19 September 1982, however, the Social Democrats returned to power. Olof Palme, who had been the Social Democratic prime minister from 1969 to 1976, was able to put together a new coalition cabinet on 8 October 1982. His party remained in power, though with a reduction of seats, following the 1985 election. Palme was assassinated in February 1986; he was succeeded by Ingvar Carlsson.

The 1988 election was a watershed that registered political discontentment. The Social Democrats lost seats as the Moderates' and Liberals' share of the vote continued to increase. More remarkably, for the first time in 70 years, a new party gained representation in the Riksdag—the Green Party (MP), which obtained 20 seats. The Social Democrats were narrowly defeated in September 1991, and the government of Ingvar Carlsson gave way to that of Carl Bildt (Moderate Party), who headed a minority four-party, center-right coalition composed of the Moderates, the Liberals, the Center Party, and the Christian Democratic party, which together controlled 170 seats.

The 1991 election represented a gain for two previously unrepresented parties—Christian Democrats (26 seats) and New Democracy (25 seats)—who managed to exceed the 4% threshold while the Greens fell below the threshold and lost representation in the Riksdag. New Democracy emerged prior to the 1991 general election as a party of discontent urging tax cuts and reduced immigration. The Left Party-Communists were renamed the Left Party (VP) in 1990.

The Moderate Coalition, which promised to end Sweden's deepening recession, found itself unable to address the country's

problems, largely because of Social Democrat and popular opposition to its cost-cutting measures. In 1994, the Social Democrats were returned to office by a population reluctantly willing to bear austerity if initiated and directed by the party that created the welfare state. The Social Democratic Coalition government under Prime Minister Ingvar Carlsson navigated Sweden through the referendum on Swedish membership into the EU in late 1994. Carlsson was replaced as prime minister by the former Finance Minister, Göran Persson.

The September 1998 election represents a protest vote against the mainstream parties and perhaps greater voter polarization in Sweden. The mainstream party of the left, the Social Democrats, had their worst election showing in over 70 years but maintained power in a minority government dependent upon support from a formal alliance from the Left and Green parties. The Social Democrats slipped from 45.3% of the vote in 1994 to 36.4% in 1998, while the Left Party advanced from 6.2% in 1994 to 12% in 1998 and the Greens returned to the Riksdag with 4.5% of the national vote. Similarly on the right, the Christian Democrats advanced from 4.1% of vote in 1994 to 11.8% in 1998 at the expense of the more centrist Center and Liberal parties, which narrowly passed the 4% threshold. The Moderates' share of the vote held basically steady.

Much of this discontent in the 1998 election was attributed to the budget tightening process that resulted in major cutbacks in social welfare benefits. A growing level of public distrust of politicians was fueled by prominent scandals of misuse of public funds. The reform to allow voters to select individual candidates does not seem to have diminished the distance between voters and elected representatives as only 29.9% took advantage of the opportunity to do so at the national level.

The 2002 general elections campaign focused largely on the issues of immigration and membership in the euro zone. The Liberals and Moderates supported a plan to import large numbers of guest workers, who would be classed as non-citizens. The Social Democrats and the Left Party denounced this plan. The Social Democrats registered a strong showing in the elections, winning 39.8% of the vote (up from 36.4% in 1998) and taking 144 of 349 seats in the Riksdag. The Social Democrats under Göran Persson formed a government with the Left Party (8.3% of the vote and 30 seats), and the Greens (4.6% and 17 seats). However, the Liberal Party, with its immigration plan, increased its strength in parliament, with 13.3% of the vote (up from 4.7% in 1998) and 48 seats. The Christian Democrats fell from 11.8% in 1998 to 9.1% of the vote in 2002 (33 seats). The Moderates (15.2% of the vote and 55 seats) and the Social Democrats support a "yes" vote in the upcoming referendum on joining the euro zone to be held in September 2003.

## 15 LOCAL GOVERNMENT

Local self-government has a long tradition in Sweden as the civil role of the Lutheran Church has been gradually reduced. The first legislation establishing municipal governance is the Local Government Ordinances of 1862 that separated religious tasks from civil tasks which were given to cities and rural municipal districts. On 1 January 2000, the Church of Sweden separated from the central government, and local parishes lost their local government status.

Decentralization is markedly characteristic of Sweden's governmental structure. With the most recent reforms there are two types of local governance in Sweden: the municipality, or *kommun*, as the local unit and the county council as the regional unit. The country is divided into 21 counties, 2 regions, 289 municipalities, and one "county council-free municipality" on the island of Gotland, each with an elected council. Local government is administered by county councils and municipalities consisting of at least 20 members popularly elected, on a proportional basis, for four years. Under each council is an

executive board with various committees. In addition, there is a governor (prefect), the government-appointed head of the administrative board in each of Sweden's counties, who holds supreme police and other supervisory authority. Local authorities are responsible for most social welfare services, including hospitals, elementary education, certain utilities, and the police force. It is up to the Swedish cabinet and parliament to decide on the overall framework of public sector activities, but within these wide parameters, local governments have a large measure of freedom to implement public programs.

## 16 JUDICIAL SYSTEM

Ordinary criminal and civil cases are tried in a local court (*tingsrätt*), consisting of a judge and a panel of lay assessors appointed by the municipal council. Above these local courts are six courts of appeal (*hovrätter*). The highest tribunal is the Supreme Court (*Högsta Domstolen*), made up of at least 16 justices. Special cases are heard by the Supreme Administrative Court and other courts. The Swedish judicial procedure uses a jury of the Anglo-US type only in press libel suits. Capital punishment, last employed in 1910, is expressly forbidden by the constitution.

The judiciary is independent of executive control or political influence. The right to counsel of criminal defendants is restricted to cases in which the maximum penalty possible is six-month imprisonment or greater.

Sweden originated the judicial practice of the ombudsman when its first ombudsman was designated in 1766. The office has been in continuous existence since 1809. The institution has also been enshrined by the constitution and provides parliamentary control over the executive. The Riksdag elects four ombudsmen representing various interests such as consumers, gender equality, the press, children, the disabled, those experiencing ethnic and/or sexual orientation discrimination. The ombudsman is charged with supervising the observance of laws and statutes as applied by the courts and by public officials, excluding in cabinet ministers, members of the Riksdag, or directly elected local government officials. The ombudsmen are concerned especially with protecting the civil rights of individual citizens and of religious and other groups. There are some 5,000 complaints lodged with the office of the Ombudsman annually, though about 40% are dismissed immediately for a variety of reasons. Only about 20–25% of these complaints are investigated fully and usually reflect an individual caught on a bureaucratic "merry-go-round." Ombudsmen may admonish or prosecute offenders, although prosecutions are relatively rare.

## 17 ARMED FORCES

Sweden's policy of neutrality and nonalignment requires a strong, modern, and independent defense establishment. The budget allocated \$4.4 billion for defense in 2001, or 2.1% of GDP. Active armed forces in 2002 totaled 33,900 with reservists numbering 262,000. The army numbers 19,100 personnel with 160 main battle tanks. The navy has 7,100 personnel including the 1,100-member coastal defense force, and a naval aviation wing. There are naval stations at Stockholm, Karlskrona, and Göteborg. Equipment includes seven submarines, 45 patrol and coastal combatants, and 22 mine warfare vessels. The air force of 7,700 personnel operates 203 combat aircraft. There is a civil defense service, and all persons between the ages of 16 and 25 can be called to serve in it. As part of the civil defense program, nuclear-resistant shelters were built over a 10-year period in the large urban areas. The shelters, completed in 1970, are used as garages in peacetime and can hold 6.3 million people in a national emergency. Sweden participates in UN and peacekeeping missions in 12 regions.

## 18 INTERNATIONAL COOPERATION

Having joined the UN on 19 November 1946, Sweden takes part in ECE and all the non-regional specialized agencies. The first UN Conference on the Human Environment was held in Stockholm in June 1972. Together with Denmark, Finland, Iceland, and Norway, Sweden has been a member of the advisory Nordic Council since 1953 and cooperates with these other Scandinavian countries in social welfare and health insurance and in freeing frontiers of passport control. Sweden is a signatory of the Law of the Sea and a member of the WTO. The nation is a member of the Asian Development Bank and the Council of Europe. Since 1974, Sweden has exceeded the UN target for official development assistance. In 1995, Sweden became a member of the EU; it rejected membership in the European economic and monetary union when it was first introduced in 1999. However, Sweden was due to hold a referendum on membership in the EMU in September 2003.

## 19 ECONOMY

Sweden is a highly industrialized country. The shift from agriculture to industry began in the 1930s and developed rapidly during the postwar period. In 1995, manufacturing contributed \$44.5 billion to GDP. Agriculture contributed \$19.4 billion; energy and water, \$5.7 billion; construction, \$12.2 billion; and financial and other services, \$82.3 billion. Average annual growth of the GDP declined from 4.3% in the 1960s to 2% in the 1970s and to 1.6% in the 1980s. It grew by 1.4% in 1990 but fell 1.4% in 1991, 1.9% in 1992, and 2.1% in 1993, the longest period of decline in the 20th century. In 1994, the economy grew by 2.2%, ending the deeply troubling reversals of past years. From 1998 to 2000 GDP growth averaged 3.77%, but the global economic slowdown from 2001 helped reduce GDP growth to 1.6% (est.) in 2001 and 1.9% (est.) in 2002.

Swedish living standards and purchasing power are among the highest in the world. However, inflation was a problem for several years after the international oil shocks of the 1970s, the annual rise in consumer prices peaking at 13.7% in 1980 after the second oil shock. The rate of price increase declined thereafter, but was still 10.4% in 1990 and 9.4% in 1991 before falling to 2.2% in 1992. By 1998 and 1999, inflation had all but disappeared, with annual rates of 0.4% and 0.3% respectively. In 2000, inflation rose to 1.3%, and during the slowed growth in 2001 and 2002, the annual inflation rate averaged 2.5%. After hitting 14% in 1994, unemployment began to gradually recede. By 1998, unemployment was down to 6.5 and by 2001, 3.9%. The estimate for 2002 is 4%. Swedish industry is outstanding in supplying quality goods and specialized products—ball bearings, high-grade steel, machine tools, and glassware—that are in world demand. Intimate contact between trade, industry, and finance is a feature of the economy, as is the spread of factories to rural districts. Some natural resources are ample, the foremost being lumber, iron ore, and waterpower. Sweden's lack of oil and coal resources makes it dependent on imports for energy production, despite abundant waterpower.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Sweden's gross domestic product (GDP) was estimated at \$227.4 billion. The per capita GDP was estimated at \$25,400. The annual growth rate of GDP was estimated at 1.8%. The average inflation rate in 2002 was 2.2%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 2% of GDP, industry 29%, and services 69%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$161 million or about \$18 per capita and accounted for approximately 0.1% of GDP. Worker remittances in 2001 totaled \$184.7 million.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$15,667. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. Approximately 17% of household consumption was spent on food, 12% on fuel, 4% on health care, and 14% on education. The richest 10% of the population accounted for approximately 20.1% of household consumption and the poorest 10% approximately 3.7%.

## 21 LABOR

The labor force numbered 4.4 million persons in 2000. In that year, approximately 74% of the workforce was in the service sector, with 24% engaged in industry, and the remaining 2% in agriculture. The unemployment rate in 2002 was 4%.

In 2002, about 80% of Swedish wage earners are members of trade unions, and within certain industrial branches the percentage is even higher. The first unions in Sweden were organized in the 1870s, but for a long time the movement remained numerically weak relative to the rest of industrialized Europe. At the end of 1992, however, the Swedish Trade Union Confederation, which is closely allied to the Social Democratic Party, had 2.23 million members and was thus the largest organization of any kind in Sweden. Other major groups include the Swedish Confederation of Salaried Employees and the Swedish Confederation of Professional Associations. The trade union movement is based on voluntary membership, and there is neither closed shop nor union shop. The Swedish Employers Confederation is the principal employer organization.

Agreements between employers and trade unions are generally worked out by negotiation. Public mediators or mediation commissions intervene if necessary. A labor court, made up of three impartial members and five representing employers, workers, and salaried employees, has jurisdiction over the application and interpretation of collective agreements already signed and may impose damages on employers, trade unions, or trade union members violating a contract. For many years, an overwhelming majority of the court's decisions have been unanimous, and since the end of the 1930s industrial peace has generally prevailed. In 1997, management and labor agreed to a new negotiating framework that has decreased strikes and increased wages. Swedish law requires employee representation on company boards of directors. A law passed in 1983 introduced employee funds, partly funded by contributions from profits of all Swedish companies, which give unions and employees equity in companies, while providing the companies with investment capital.

The legal minimum age for full-time employment is 16 years old. The regular workweek cannot exceed 40 hours, and overtime is limited to 48 hours over a four-week period and a total of 200 hours a year. However, these regulations may be modified by collective bargaining agreement. A minimum of five weeks of holiday with pay is stipulated by law. There is no national minimum wage: Wages are negotiated in collective bargaining agreements. Workers, even at the lowest end of the pay scale, are able to provide a decent standard of living for their families. Health and safety standards are very high and are stringently enforced.

## 22 AGRICULTURE

Only about 2% of Sweden's labor force earned their living in agriculture in 1999, compared with more than 50% at the beginning of the 20th century and about 20% in 1950. Production exceeds domestic consumption; however, a



considerable amount of food is imported. About 6.8% of the land area of Sweden, or 2,790,000 hectares (6,894,100 acres), is classed as land cultivated with permanent or temporary crops. In 2000 there were 76,798 holdings with more than two hectares (five acres) of arable land. Farm holdings are intensively tilled; fertilizers are used heavily and mechanization is increasing. During 1980–90, the agricultural sector grew by an annual average of 1.5%. However, during 1990–2000, it remained essentially unchanged.

Most farmers are elderly, and few small farms have a successor waiting to replace the present farmer. Government policy in recent years has been to merge small unprofitable farms into larger units of 10–20 hectares (25–50 acres) of arable land with some woodland, the size estimated able to support a family in the same living standard as an industrial worker. Most Swedish farmers are small landowners who also support themselves through forestry and fishing, and in 2000, 54% of farms were less than 20 hectares (50 acres) in extent. Farmer participation in the government's set-aside program resulted in about 300,000 hectares (741,300 acres) of cropland being retired from production in 1990, and again in 1991.

Grains (particularly oats, wheat, barley, and rye), potatoes and other root crops, vegetables, and fruits are the chief agricultural products. Sugar beet cultivation in Skåne is important and produces almost enough sugar to make Sweden self-sufficient. In 2000, Sweden produced 1,642,100 tons of barley; 1,151,100 tons of oats; 2,334,800 tons of wheat; 9,250,000 tons of potatoes; and 180,000 tons of rye.

In the last 50 years, Swedish agricultural policy for major commodities has developed under an official system of import levies, export support, and market intervention. This policy was in response to the economic depression of the 1930s, and for the country's need for food security in times of risk or war. The Warfare Preparedness Program, developed after World War II (1939–45), protected Swedish agriculture, resulting in high costs and overproduction. In 1991, a five-year agricultural reform program came into effect, whereby most subsidies and price regulations were eliminated, allowing consumer demand to determine production volumes. By 1995, Sweden's agricultural policy was fully in line with EU rules. Sweden has also enacted a plan to convert 10% of the country's arable land to ecological, or organic, agriculture. To this end, the country increased taxes on energy, fertilizers, and biocides in 1995 by Kr700 million. The government has also introduced incentives to promote the production of biomass for energy production.

### 23 ANIMAL HUSBANDRY

Although the long winters necessitate indoor feeding from October to May, pastoral farming is important, and about 80% of farm income derives from animal products, especially dairy products. In 2001, there were 418,471 dairy cows, 165,738 beef cows, 573,286 heifers, bulls, and steers, and 494,016 calves. Beef production totaled 139,000 tons in 2001. Liquid milk production totaled 3.34 million tons in 2001. Other dairy products made that year were cheese, 125,000 tons, milk powder, 56,000 tons, and butter, 49,000 tons. Because the oversufficiency of butter before 1970 weakened Sweden's position in world markets, the government encouraged farmers to shift to meat production. An agricultural reform program in the early 1990s dismantled many of the price regulations and subsidies for products like milk and meat in favor of market-oriented pricing. As these adjustments were made, the number of dairy producers fell from 24,786 in 1990 to 12,168 by 2000. Sweden's beef industry is now supported by direct EU subsidies and in programs connected with less favored area and environment supports.

The sheep population was 420,000 in 2001, and pigs numbered 1,891,000. There were 7,400,000 chickens during the same year. Fur farms breed large numbers of mink and a declining

number of fox. Reindeer are raised by 51 Sami (Lapp) communities in the north, and between 1970 and 2001 the reindeer population in Lapp villages increased from 166,200 to 219,500. Reindeer meat production declined in the aftermath of the Chernobyl nuclear disaster of 1986 in the former USSR.

### 24 FISHING

Fish is an important item in the Swedish diet, and Sweden is both a major importer of fish products and a principal supplier to other countries. Göteborg, Bohus, and Halland are the principal fishing districts, but large quantities of fish are caught all along the coasts. At the beginning of 2001, there were 1,851 vessels in the Swedish fishing fleet, with 2,576 professional fishermen. Herring, cod, plaice, flounder, salmon, eel, mackerel, and shellfish are the most important saltwater varieties. Freshwater fish include trout, salmon, and crayfish, a national delicacy. The saltwater fish catch increased from 228,000 tons in 1971 to 259,000 tons in 1984, overcoming a significant drop in the 1974–79 period because of government conservation measures and the declining number of fishermen. The total catch amounted to 305,700 tons in 2001. By tradition, a large part of the annual catch is landed in Denmark. Total landings were valued at \$114 million in 2001. Herring and cod accounted for 23% and 7%, respectively, of total landings.

### 25 FORESTRY

Forests occupy some 55% of the land area and total 22.6 million hectares (55.8 million acres). The percentage has only varied between 55.5% and 58.1 since the first National Forestry Inventory of 1923–29. Virtually all of Sweden's forests are regrowth; virgin forests cover 788,000 ha (1,947,000 acres) and are almost exclusively found in national parks and nature reserves. The growing stock is estimated at 2,710 billion cu m (95.7 billion cu ft). The annual growth amounts to about 96.3 million cu m (3.4 billion cu ft). Annual removals decreased from an average of 70.8 million cu m (2.5 billion cu ft) during 1970/71–1974/75 to an average of 55.5 million cu m (1.96 billion cu ft) during 1976/77–1980/81 but increased to roughly 72 million cu m (2.54 billion cu ft) during recent years. Important varieties include spruce (46% of commercial stands), pine (38%), birch (11%), and oak, beech, alder, and aspen (5% combined). About half of the total forest area is owned by private persons and 40% by private corporations and rural communes. The government owns most of the remaining 10% of forests, but they are located, for the most part, in the north, where climatic conditions slow the trees' growth.

Forestry and farming are interdependent everywhere except in the most fertile plains; in northern Sweden, almost one of every two men works in the woods for at least part of the winter. Both the number of workers and the productivity of those who stayed on declined in the late 1970s. Since the early 1970s, the number of employees in the forestry sector has fallen by over 40%.

The exploitation of forest wealth ranks second in importance in the economy (after metal-based industry). Sweden competes with Canada for world leadership in the export of wood pulp and is the world's leading exporter of cellulose. In 2001, net exports of wood and wood products came to \$10.6 billion and made up 14% of exports. The total timber felled in 2001 amounted to an estimated 75.6 million cu m (2.67 billion cu ft), of which coniferous sawlogs accounted for 52% of production; pulpwood, 37%; fuel wood, 9%; and other items, 2%. Mostly roads and trains are used to transport timber; only a few of the biggest rivers are used. About 70% of timber harvested comes from clear-cutting, and 30% from thinning. About 60% of Sweden's annual forestry production is exported every year. Sweden is the third largest exporter of paper and board, supplying 13% of the export market, with production amounting to 4% of the world's total. In 2001, Sweden's 1,875 saw mills processed 15.6 million

cu m (551 million cu ft) of lumber, 45 mills produced 11 million tons of pulp, and 48 paper facilities manufactured 10.5 million tons of paper.

A forest policy introduced in 1980 coordinates forestry measures more closely with industrial needs and places increased emphasis on clear-cutting and more complete use of the forest biomass, including stumps and small trees. The government, through the Forest Commission, enforces pest control, the prevention of premature cutting, and the use of proper methods of preserving permanent forest cover. The government decided in the early 1990s to eliminate subsidies to commercial forestry because such subsidies had been counterproductive in a strongly competitive international market.

## 26 MINING

Since ancient days, mining and the iron industry have been of great importance in the economic life of Sweden, which was among the most active mining countries in Europe. Iron and steel comprised Sweden's top industry and fifth-leading export commodity in 2002—one-third of Sweden's exports were from steel—and chemicals ranked sixth among export commodities. Sweden accounted for a large percentage of Western Europe's iron output, and was home to the region's largest gold mine.

Iron-ore production in 2000 was 12.75 million tons (metal content), down from 13.91 in 1997; reserves totaled 1,230 million tons. The Bergslagen region, in central Sweden, yielded high-grade ores for quality steel. Lead, copper, zinc, gold, and silver were produced in the rich Skellefte (Boliden) region, where bismuth, cobalt, and huge quantities of arsenic were also found. The open-pit Björgal gold mine upgraded its facility, to increase production capacity to 3,000 kg per year, from 2,600 kg per year in 1996. Further south, phosphate, tungsten, kyanite, and pyrite were found. Sweden also produced hydraulic cement, kaolin clay, feldspar, fertilizer, graphite, lime, quartz, quartzite, dimension and crushed stone (including dolomite, granite (for domestic use and for export), limestone, sandstone, and slate), sulfur, and soapstone talc. Marble (in Askersund) and ilmenite were also found in Sweden. Production on the Blaikén zinc/gold mine was expected to start in 2001, and reverse circulation drilling for diamonds was done on the Svartliden gold project.

## 27 ENERGY AND POWER

With many rivers, waterfalls, and lakes, Sweden has favorable conditions for waterpower. Northern and southern Sweden have their peak productions at different seasons; thus, they are complementary, and all large power stations are coordinated. In the north, underground installations provide power for iron-ore working, for iron smelting at Luleå, and for the Lapland railway. More than half the hydroelectric output is produced underground. Because of environmental considerations, high production costs, and low world market prices, Sweden's substantial uranium reserves—some 250,000–300,000 tons (or about 20% of the known world reserves)—have not been exploited.

Total installed electrical capacity in 2001 was 32,759,000 kW. In 2000 Sweden's electricity production totaled 141.4 billion kWh, of which 6.1% was from fossil fuels, 53.8% from hydropower, 37.4% from nuclear power, and 2.7% from other sources. Consumption of electricity in 2000 was 139.2 billion kWh.

During the 1970s, as the price of Sweden's oil imports increased sevenfold, Swedes reduced their dependence on petroleum imports by conserving energy, so that their energy consumption rose by only 0.6% annually from 1973 to 1979. The share of oil in the primary energy supply declined from nearly 70% in 1979 to 30% in 2000. In the same year, nuclear energy accounted for another 24% of primary energy, hydroelectricity 36%, coal 4%, natural gas 1%, and renewable

sources for the rest. Sweden embarked on an ambitious nuclear energy program, under which seven nuclear reactors came into operation between 1972 and 1980. By 1986, 12 units offered a capacity of 9.4 million kWh; by 2010, all 12 will be shut down. Plants fired by natural gas will replace nuclear energy's role. Energy conservation, development of alternative energy sources, and increased use of imported coal are also planned.

## 28 INDUSTRY

The basic resources for industrial development are forests, iron ore, and waterpower. Forest products, machinery, and motor vehicles are primary exports. Industrial production accounted for 29% of GDP in 2001. From 1990 to 1992, Swedish industry suffered as a result of the deep national recession as well as an overpriced labor pool. In those years, manufacturing output fell by 10%. Between 1989 and 1992, 260,000 Swedes lost their jobs in the manufacturing sector. As the economy has rebounded in recent years, however, especially the growth turnaround in 1994–96, industrial output has grown. In 1996, it was up 17% from 1990. Between 1993 and 1996, industrial investments more than doubled. Industrial growth remained a solid 4.5% in 2001.

Since the end of World War II, emphasis has shifted from production of consumer goods to the manufacture of export items. Swedish-made ships, airplanes, and automobiles are considered outstanding in quality. Sweden's motor vehicle producers are Volvo and SAAB-Scania. In 2001, Sweden produced 286,147 automobiles, and in 2000, it produced 33,605 heavy trucks.

Before World War II, virtually the entire tonnage of iron and steel products consisted of high-grade steels, but in recent years exports have included considerable quantities of commercial grades. Transport equipment and iron and steel are of declining importance, however, while exports of machinery, precision equipment, chemicals, and paper have been growing in value. In the early 2000s, telecommunications equipment and automotive parts production were experiencing declines. Sweden's Ericsson is the world's largest producer of telecommunications equipment. Sweden has the largest number of biotechnology companies per capita in the world.

## 29 SCIENCE AND TECHNOLOGY

Sweden's high-quality scientific and technological development is renowned throughout the world. Technological products invented or developed by Swedish firms include the self-aligning ball bearing, the cream separator, the three-phase electric motor, and a refrigerator without moving parts. Sweden's more recent applications of sophisticated technology range from powder metallurgy to the Hasselblad camera and the Viggen jet fighter. Six of Sweden's largest industrial corporations are engineering companies: Volvo, SAAB-Scania, ASEA, Electrolux, SKF, and L. M. Ericsson. In 1998, high-tech exports were valued at \$13.7 billion and accounted for 20% of manufactured exports.

State-financed research, centering on the universities, is directed by the Council for Planning and Coordination of Research. Long-term industrial research and development is the responsibility of the government through the National Board for Technological Development. Swedish students graduating with science and engineering degrees account for 38% of all university students. In 1987–97, expenditures for research and development totaled 3.8% of GNP; 3,826 scientists and engineers and 3,166 technicians per million people were engaged in research and development.

Institutions that have played an important role in the advancement of science, both in Sweden and throughout the world, are the Nobel Foundation, which sponsors annual awards in chemistry, physics, and physiology or medicine, as well as for peace, literature, and economic science; the Royal Academy of Sciences, founded in 1739 in Stockholm; the Royal Swedish

Academy of Engineering Sciences, founded in 1919 at Stockholm; and the Karolinska Institute, founded in 1810 in Stockholm, specializing in medical research. Sweden has 18 universities that offer courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 38% of university enrollment.

### 30 DOMESTIC TRADE

Stockholm, Gothenburg, and Malmo are the nation's primary distribution centers. Of the country's retail business, most is in private hands, but the turnover of cooperative societies represents more than 10% of total retail trade, making the consumer cooperative movement the country's largest retail organization. The local organizations belong to the Cooperative Union and Wholesale Society, a central buying and manufacturing organization with two million members, which operates factories, department stores, supermarkets, and specialized shops. The Swedish Federation of Trade is another important organization for importers and traders in the private sector. Competition between the cooperatives and private enterprise has improved selling methods, so that Sweden's self-service shops are among the most modern in Europe.

Department stores are located in the major cities. Franchising has become popular in the fast-food, apparel, home improvement, and business services sectors. Wholesale and retail outlets, as well as supermarkets, are plentiful. Value-added taxes apply to all goods and services. Depending on the product, this VAT can be anywhere from 12% to 25%.

The nation's three major trade fair/exhibition sites are the Stockholm International Fair, the Swedish Exhibition and Congress Center, and the Sollentuna Fair.

Offices and stores are open on weekdays from 9 AM to 5 or 6 PM (in summer, sometimes to 3 or 4 PM) and close early on Saturdays. However, many stores stay open one night a week, and some department stores are open on Sundays. Many businesses are closed, or management is unavailable, for extended vacations in the summer and around the Christmas holidays.

### 31 FOREIGN TRADE

The volume of Sweden's foreign trade has increased very rapidly since World War II, mainly as a result of the gradual liberalization of trade restrictions within the framework of OECD, EFTA, and the EU. Telecommunications equipment, automobile manufacturing, and logging, dominate export commodities from Sweden. The top eight exports are as follows:

	% OF COUNTRY TOTAL
Telecommunications equipment	15.5
Paper	8.7
Medicinal and pharmaceutical products	5.0
Iron and steel	4.9
Motor vehicle parts and accessories	4.3
Refined petroleum products	2.6
Cars	2.4
Engines	1.5

In 2000 Sweden's imports were distributed among the following categories:

Consumer goods	15.0%
Food	5.7%
Fuels	8.9%
Industrial supplies	22.9%
Machinery	29.0%
Transportation	12.2%
Other	6.3%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	7,896	11,931	-4,035
United Kingdom	6,751	6,586	165
Norway	6,206	5,870	336
Denmark	4,602	5,102	-500
United States	6,638	4,855	1,783
Netherlands	3,570	4,848	-1,278
France	4,315	4,068	247
Finland	4,818	3,525	1,293
Italy	2,844	2,338	506
Belgium	2,825	2,261	564

### 32 BALANCE OF PAYMENTS

From 1974 through 1985, Sweden ran annual current-account deficits (except in 1984) because of increases in world oil prices and a decline in the competitiveness of Swedish export products on the world market. Until 1977, deficits were financed mainly through long-term foreign private borrowing by the private sector. Thereafter, however, central government borrowing expanded rapidly. Current account deficits increased through much of the 1990s, but a turnaround began in 1996 when the deficit comprised 2% of GDP after a high of 12% in 1993. A rebounding trade balance surplus and a turnaround in direct investment aided in the improvement. The lifting of controls on foreign direct investment, combined with improved competitiveness accruing from greater wage restraint and rising productivity, are expected to bring continued interest in investing in Sweden. Also attractive is Sweden's liberal international investment policy, allowing 100% foreign ownership of virtually any sector, other than certain types of transportation and arms manufacture. The current account surplus was expected to narrow in 2003/04.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Sweden's exports was \$80.6 billion while imports totaled \$68.6 billion resulting in a trade surplus of \$12 billion.

The International Monetary Fund (IMF) reports that in 2001 Sweden had exports of goods totaling \$76.2 billion and imports totaling \$62.4 billion. The services credit totaled \$22 billion and debit \$23 billion. The following table summarizes Sweden's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>6,696</b>
Balance on goods	13,832
Balance on services	-1,023
Balance on income	-2,852
Current transfers	-3,261
<b>Capital Account</b>	<b>509</b>
<b>Financial Account</b>	<b>1,824</b>
Direct investment abroad	-6,959
Direct investment in Sweden	13,085
Portfolio investment assets	-23,041
Portfolio investment liabilities	10,338
Other investment assets	929
Other investment liabilities	12,689
<b>Net Errors and Omissions</b>	<b>-10,078</b>
<b>Reserves and Related Items</b>	<b>1,048</b>

### 33 BANKING AND SECURITIES

The Central Bank of Sweden (Sveriges Riksbank), founded in 1656, is the oldest bank in the world. It is the bank of issue and regulates domestic banking operations. The European Central Bank is responsible for determining monetary policy and setting interest rates. The largest commercial bank is the Skandinaviska Enskilda Banken. In the early 1990s, Swedish banks suffered

severe losses; the government was forced to intervene and support two of the five largest commercial banks, Nordbanken and Gota Bank, by taking them over and eventually merging them, and the savings bank Forsta Sparbanken. By the end of 1996, Swedish banks showed improved results, with reduced credit losses and a stricter control of costs since the banking crises set in at the beginning of the 1990s. The smaller banks serve provincial interests. Deposit accounts at various lengths of call are used for short-term credit by industry and trade. The deregulation of financial markets has paved the way for foreign banks to open offices in Sweden. In 1997, Sweden's banking sector saw a series of mergers and acquisitions as Svenska Handelsbanken, the nation's largest bank, acquired the country's largest mortgage lender, Stadshypotek. Swedbank and Föreningsbanken merged, creating the second largest bank. ForeningsSparbanken is now trying to merge with Skandinaviska Enskilda Banken (SEB) to compete with Nordea for dominance of the Nordic banking market. However, this deal must still garner the approval of the EU. Den Danske Bank, based in Denmark, made the first incursion by a foreign bank into the Swedish retail sector when it purchased Ostgöta Enskilda Bank. By December 2000, 41 commercial banks remained in Sweden.

Mortgage banks of various types meet the needs of property owners, home builders, farmers, and shipbuilders. Credit also is extended by some 500 local rural credit societies and by about an equal number of agricultural cooperatives. There are four semi-governmental credit concerns, organized as business companies and created in cooperation with private commercial banks to facilitate long-term lending to agriculture, industry, small industry, and exports. Although the Riksbank's note issue is not tied to its gold reserves, there is an adjustable legal limit.

The International Monetary Fund reports that in 2001, M2—an aggregate equal to currency and demand deposits plus savings deposits, small time deposits, and money market mutual funds—was \$88.1 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 4.08%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 2%.

The Riksbank lends money to the commercial banks and other credit associations against securities. Traditionally, the Swedish people have preferred to save by placing money in these banks rather than by direct investment, although this seemed likely to change if the Swedish pension reforms of 1997 were fully enacted, allowing workers to decide how to invest a portion of their retirement reserves. In 1992, 118 Swedish companies and 10 foreign companies were listed on the Stockholm Stock Exchange (Stockholms Fondbörs), which was computerized that year. In 1997, the Stockholm Stock Exchange entered into a joint equity trading union with the Danish bourse, creating the first transnational link of its kind in Europe. The joint equities market became Europe's sixth largest.

Profits from the sale of securities are taxable provided they have been owned for less than five years. The capital gain is wholly taxable for securities held less than two years, but only 40% of the gain is taxable if the shares have been held more than two years. For machinery and equipment a minimum write-off period of three years is prescribed. The 1985 deregulation of the credit market included the removal of ceilings on lending banks, finance houses, and housing credit institutions and had the effect of diminishing part of Sweden's "gray market": direct contact between companies and private individuals with money for loans. Stockbroking is authorized by the Bank Inspection Board.

### 34 INSURANCE

The Swedish people are very life-insurance conscious. In 1985, there were at least 560 Swedish insurance companies. Most companies are very small, however, and only 65 firms operated on a nationwide scale in 1995. The five largest companies held

almost 80% of total insurance assets. Automobile liability insurance is compulsory in Sweden, as are nuclear liability and workers' compensation.

Since the deregulation of financial markets in the late 1980s, new credit institutions have appeared which target niche sectors in banking and other financial services. Insurance companies, such as Skandia, have created their own banks. The National Insurance Pension Fund and private insurance funds are among the largest single domestic investors on the Stockholm Stock Exchange. The insurance regulatory authority is the Financial Supervisory Authority which is an independent state agency.

### 35 PUBLIC FINANCE

The financial year extends from 1 July to 30 June. Estimates are prepared in the autumn by the Ministry of the Budget and examined by the Riksdag early the following year. The budget contains two sections: an operating budget and a capital budget, the latter generally representing investments in state enterprises. The policy of running a surplus on the budget in boom years and a deficit in depression was used in the period between the two world wars and has been continued as a way of combating inflation. From 1982 to 1989, the budget balance improved from a deficit equivalent to about 13% of GDP to a surplus of nearly 2% of GDP. In 1990, however, a deficit reappeared that was equivalent to 1.2% of GDP. In 1991 and 1992, the budget deficits widened to 4.3% and 9.6% of GDP, respectively. The deficit increased to 12.3% of GDP in 1993, before beginning a sharp decline due to austerity measures, put in place by the Social Democrats; although smaller, deficits remained the norm through the late 1990s. A surplus of 8% of GDP was projected for 2001.

The US Central Intelligence Agency (CIA) estimates that in 2001 Sweden's central government took in revenues of approximately \$119 billion and had expenditures of \$110 billion. Overall, the government registered a surplus of approximately \$9 billion. External debt totaled \$66.5 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	119,001
Tax revenue	87.6%	104,191
Non-tax revenue	11.2%	13,276
Capital revenue	0.1%	152
Grants	1.2%	1,383
EXPENDITURES	100.0%	110,003
General public services	6.2%	6,854
Defense	5.6%	6,145
Public order and safety	2.7%	3,001
Education	6.6%	7,239
Health	2.0%	2,240
Social security	46.3%	50,921
Housing and community amenities	1.7%	1,867
Recreation, cultural, and religious affairs	0.7%	799
Economic affairs and services	9.6%	10,585
Other expenditures	7.1%	7,820
Interest payments	11.4%	12,531

### 36 TAXATION

With so many social services in effect, and a virtual absence of poverty, Sweden's personal income taxes are the highest in the world. In 2002, personal income tax rates, the combination of state and local rates, were 31% on the first increment of taxable income up to 232,600 Krona (about \$173,065); 51% on the next increment up to 374,000 Krona (about \$278,000); and 56% on increments of income above 374,000 Krona. Personal deductions

vary between 8,600 and 18,100 Krona (\$6,364 and \$13,400). A health tax is levied at 1.5%. There is also a real estate tax.

In contrast, corporations are taxed relatively lightly in comparison with those in many other countries. The national income tax rate on corporations was 28% in 2002 (separate municipal income tax on corporations was abolished as of 1985), with no distinction between distributed and undistributed profits. Capital gains are taxed like other corporate income at 28%. The withholding tax on dividends is 30% and on royalties, 28%, but these rates are often reduced or eliminated in bilateral tax treaties. Interest income is not subject to withholding.

Tax liability is determined according to a firm's books so long as these are properly kept. Companies are allowed considerable discretion in determining their net income for any particular year; they can take advantage of the flexible rules governing the valuation of stocks and the depreciation of equipment and machinery. Swedish companies may set aside an investment reserve in boom years and use this reserve in years of slack production.

For decades, the Swedish ratio of indirect taxes to total tax revenue was one of the lowest in the world. During World War II and the early postwar years, however, a national sales tax was in effect. The national sales tax was replaced by a value-added tax (VAT) with a standard rate of 10% on 1 January 1969. The standard rate was increased to 17.65% in 1971, to 20.63% in 1977, to 46% in 1980, to 21.51% in 1981, to 23.46% in 1983, to 25% in 1992, where it has since remained. Almost all goods and most services are subject to this tax. There are two reduced rates: 12%, applied to food, and 6%, applied to domestic passenger transport, newspapers, and, as of 1 January 2002, books and magazines. A zero VAT rate applies to printing services, ship and airplane building and repair, sea rescue services, prescription medicine, aircraft fuel, and gold supplied to the Central Bank.

### 37 CUSTOMS AND DUTIES

Tariffs were established in the 19th century to allow for the development of Swedish industry, but the rates have traditionally been among the lowest in the world. Sweden subscribes to the OECD trade liberalization program and imports, with few exceptions, are not subject to controls. As a member of EFTA, Sweden abolished customs duties against other EFTA countries by the end of 1966. In 1991, Sweden formally began the process of joining the European and officially became a member on 1 January 1995. Some 90% of imports from developing countries are duty-free.

In general, the importation of raw materials is duty-free; import duties are based on weight rather than value. Import restrictions apply mainly to protected agricultural products, automobiles, and trade with Eastern Europe and the Far East. Sweden applies common external European Union tariffs to imports from the United States at rates ranging from 2% to 14% for industrial products. Other import taxes include a 25% value-added tax (VAT). A lower 12% VAT applies for food and select products.

### 38 FOREIGN INVESTMENT

Sweden has some of the most liberal foreign investment laws in the world. Sweden's corporate income tax rate of 28%, one of the lowest in Europe, makes Sweden an attractive target of foreign investors. It is open to nearly all foreign investment and allows 100% foreign ownership, except in certain transportation sectors (air and maritime) and in arms manufacture. For the period 1988–1990, Sweden was ranked third of 140 countries on UNCTAD's Inward FDI Potential Index, after the United States and Canada. For the period 1988–2000, Sweden was number two, behind only the United States.

Inward FDI flow was only \$3.7 billion in 1993, but had reached \$19.5 billion by 1998. FDI inflows peaked in 1999 at \$60.8 billion, then moderated to \$23.4 billion in 2000. The world economic slowdown and the collapse of the dot-com bubble reduced FDI inflows to \$12.7 billion in 2001, and an estimated \$11.5 billion in 2002. By 2001, cumulative FDI in Sweden totaled \$155 billion, the 10th-highest total in the world. From 1998 to 2002, the 10 largest sources of inward FDI were, in order, the United Kingdom, Finland, Germany, the United States, Norway, Belgium, the Netherlands, Denmark, Canada, and Switzerland.

Sweden's outward FDI also rose steadily during the 1990s, from \$1.4 billion in 1993 to a peak of \$41.7 billion in 2000, ahead of inward FDI for the year by \$18.3 billion. Outward FDI dropped to \$6.2 billion in 2001 but rose to \$11.3 billion in 2002. The countries with the largest net Swedish investment are Finland, the United States, Ireland, Norway, and the United Kingdom.

### 39 ECONOMIC DEVELOPMENT

Between 1946 and 1953, the Swedish economy was dominated by expansion. Thereafter, although production continued to increase (at a lessened rate), inflation was a matter of concern. Domestic investment has remained at about the same level as in 1939, but a larger share has come from public investment. Expansion of output slowed down during the international oil crisis and recession of 1974–75, largely as a result of a weakening of foreign demand for Swedish products, but employment remained high. Thus far, the economy has managed to contain inflationary trends within reasonable limits. Although some industries (the railways, iron-ore mines, etc.) have been nationalized for a long time, private concerns carry on most of Sweden's industry, in terms of both number of workers and value of output.

During periods of unemployment such as the world recession of 1980–81, the central government and the municipalities have expended funds to provide additional employment and to keep the unemployment rate relatively low. The jobless have been put to work building dwellings and highways, extending reforestation work, and constructing water and sewer installations, harbors, lighthouses, railroads, defense projects, and telecommunications facilities. Although the government resorted to stockpiling industrial goods to combat the economic slowdown in the mid-1970s, the cost was considered too high, and the policy was not repeated during the recession of the early 1980s. More recently, the emphasis has been on cutting costs and restraining inflation to make Swedish goods more competitive in the international marketplace.

Regional development has been fostered by the use of investment funds (a tax device permitting enterprises to set aside tax-free reserves during boom years to be used for investment during recessions), relief works, and government lending to small-scale industry. A national program for regional development was introduced in 1972 to develop services and job opportunities in provinces that have lagged behind in industrial development. Projects in northern Sweden benefited most from this program.

In 1991, the government announced a plan to privatize 35 wholly or partially state-owned firms with annual turnovers totaling KR150 billion. This program was delayed by the economic recession, however. A 10-year, KR110 billion program of infrastructure investment was announced in 1994. More than 90% of the money would be spent on the road and rail networks, and a bridge that would link Malmö with Copenhagen.

Sweden's entry into the EU in 1995 dominated the second half of the 1990s. As a result of EU membership, Sweden harmonized its trade laws with those of its fellow members and continued privatization and liberalization of its economy. Sweden also

qualified for membership in the European Monetary Union (EMU) but decided to opt out. Future membership is contingent upon passage of a referendum (one was scheduled for September 2003).

As of the end of 2001, around 34% of the labor force was employed in the public sector, and general government expenditure accounted for around 55% of gross domestic product (GDP). Economic growth in the late 1990s and into the early 2000s was relatively strong, employment rates were high, there were large surpluses in both the general government and the external current accounts, and the public debt was declining. In 2000, the government set a target for employment, that 80% of the working age population would have a regular job by 2004.

#### 40 SOCIAL DEVELOPMENT

Sweden has been called the model welfare state; every citizen is guaranteed a minimum subsistence income and medical care. Social welfare legislation was introduced relatively early and was greatly expanded after World War II. The system is financed partly by insurance premium payments and partly by state and local taxation. Basic benefits are often increased by cost-of-living supplements. In 1999 Sweden implemented a new social insurance system that provides for mandatory private accounts that allow workers to decide how to invest up to 2% of their retirement reserves.

Old-age pensions are paid to all residents 65 years of age or older, but an earlier retirement is possible, with a reduction in pension benefits. Under the new system, there is a flexible retirement age, starting from 61, and is funded by 6.95% of employee earnings and 6.4% of employer payroll. Unemployment insurance is administered by the trade unions and provides benefits according to salary to those who voluntarily enroll. Unemployment relief, through monetary assistance or public works, is provided by the central government or by state-subsidized municipalities.

Compulsory health service was introduced in 1955. Hospital care is free for up to two years. Medical services and medicines are provided at substantially reduced rates or, in some cases, without charge. In the event of illness, employed persons and women staying at home to raise children receive cash payments and get further benefits according to income. Costs of confinement and maternity allowances for women are covered by health insurance. There is also a national program of dental insurance.

Workers' compensation is coordinated with the national health service scheme. This type of insurance, financed entirely by employers, covers work time as well as travel to and from work for all employees. Benefits include free medical treatment, medicines, and appliances. Annuities are paid to persons permanently disabled, and funeral benefits and pensions to dependents are provided in case of death. Public assistance is provided for blind or infirm persons confined to their homes and to people who are in sanitariums, special hospitals, or charitable institutions. The social services also help meet the costs of rearing children. Family allowances are set at Kr950 a month per child under age 16.

The law requires women to have equal opportunities and equal pay. Despite these legal protections, women are underrepresented in higher-paying jobs, and often receive less pay for equal work. The Equal Opportunity Ombudsman, a government official, reviews equality plans required by employers and investigates allegations of gender discrimination. Violence against women, primarily spousal abuse, persists, although the government has many programs to deal with these issues. The laws protect women, and shelters and other assistance to victims is available. Strict laws protecting children from abuse are also in effect.

There is general tolerance for religious and ethnic minorities, although right-wing and neo-nazi activities are reported. The

government protects and supports minority languages. Human rights are deeply respected in Sweden.

#### 41 HEALTH

The national health insurance system, financed by the state and employer contributions, was established in January 1955 and covers all Swedish citizens and alien residents. Total expenditure for health care insurance was 7.9% of the gross domestic product as of 1999. Principal health care reform issues in the 1990s include universal and equal access to services and equitable funding of health care. For rural medical attention, doctors are supplemented by district nurses. Only about 5% of all physicians are in full-time private practice. The corresponding figure for private dentists, however, is more than 50%. Swedish hospitals, well known for their high standards, had 3.7 beds per 1,000 people as of 1999, when there were an estimated 3.1 physicians per 1,000 people.

Cardiovascular disease accounted for about half of all deaths in 1998, when cancer was the next leading cause of death. In 1993, there were 28,367 deaths due to cardiovascular disease. In Sweden, the likelihood of dying after age 65 of heart disease was 388 for males and 357 for females per 1,000 people in the mid-1990s. Many health problems are related to environment and lifestyle (including tobacco smoking, alcohol consumption, and overeating). The smoking rates were similar between men (22%) and women (24%) over the age of 15 in 1994. Periodic campaigns are conducted to reduce tuberculosis (with a nationwide X-ray survey), cancer, rheumatism, and venereal diseases.

In 1997, the immunization rates for children under age one were as follows: diphtheria, pertussis, and tetanus, 99% and measles, 96%. There is a well-developed prenatal service. Children receive free dental care until the age of 20.

Sweden's population is the world's oldest; nearly one in five people is 64 years of age or older. In 2000, average life expectancy in Sweden was 80 years. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 9.8 and 10.6 per 1,000 people. Infant mortality has been sharply reduced, from 60 per 1,000 live births in 1920 to 3 per 1,000 in 2000, one of the lowest rates in the world.

As of 1999, the number of people living with HIV/AIDS was estimated at 3,000 and deaths from AIDS that year were estimated at fewer than 100. HIV prevalence was 0.08 per 100 adults.

#### 42 HOUSING

Nearly all of Sweden's housing stock was modernised during a mass housing improvement program in the 1980s. Most houses are built by private contractors, but more than half of new housing is designed, planned, and financed by nonprofit organizations and cooperatives. NPOs and cooperatives provide dwellings for members who are designated as tenant-owners of their dwellings. In 1998, there were 4.3 million dwellings nationwide. Of these, about 2.3 million were multi-family dwellings and the remainder were one- or two-family homes. In 1998, about 20% of all dwellings were tenant-owned, 40% were rental units, and 20% were owner occupied. There were about 4.2 million households that year, with an average of 2.1 people per household. In 1999, 15,000 new dwellings were started.

The government subsidizes new construction and reconditioning, helps various groups to obtain better housing, and extends credit at interest rates lower than those obtainable in the open market. A system of rent controls, introduced in 1942 and designed to freeze rents at the existing rate, was abolished in 1975. It has been replaced by a policy known as a utility-value provision, through which the rent of a flat may not be higher than that of a similar flat in the same area which is of the same general value to the occupant. Many tenant organizations

negotiate rental agreements with landlords and rent increases can be reviewed by a tribunal. The National Board of Housing, Building, and Planning estimates that 250,000 new dwellings will be built from 2000–2010. About 30,000 dwellings per year will be renovated/rebuilt during the same period.

### 43 EDUCATION

Virtually the entire adult Swedish population is literate. Education is free and compulsory between ages 7 and 15. A nine-year comprehensive course was introduced in 1962. All pupils receive the same course of instruction for six years; beginning in the seventh year the curriculum is differentiated, and students may choose between a classical and a vocational course. About 80% of all students then enter gymnasium (senior high school) or continuation schools. The gymnasium specializes in classical or modern languages or science; after the three-year course, students may take a final graduating examination. The continuation schools offer a two-year curriculum that is more practical and specialized than that of the gymnasium and leads more quickly to the practice of a trade. Both comprehensive schools and secondary schools are administered by local authorities, while the central government provides grants-in-aid to cover the greater part of the costs. In 1997, there were 690,630 students and 58,365 teachers in primary schools. Student-to-teacher ratio stood at 12 to 1. In the same year, there were 829,295 students and 78,732 teachers in the secondary schools. Institutions of higher education had a combined enrollment of 275,217 students; teaching staff totaled 33,498.

Enrollment at the tertiary level has now reached 40%. Sweden's six universities, all largely financed by the state, are at Uppsala (founded in 1477), Lund (1666), Stockholm (1877), Göteborg (1891), and Umea and Linköping (both completed in 1963). Uppsala and Lund have four faculties each—law, theology, medicine, and philosophy (arts and sciences). Stockholm has faculties of humanities, law, mathematics, and science; Göteborg, medicine and humanities. There are also more than two dozen specialized schools and institutions of university rank for such subjects as medicine, dentistry, pharmacology, veterinary science, music, economics, commerce, technology, agriculture, and forestry. Tuition is free, except for some special courses; most university students receive government loans to help them meet their living expenses.

Sweden has an active adult education movement in which some three million persons participate each year. People's schools and other educational institutions give courses for all those who want to study. All the universities have extension divisions for general studies. There are 130 state-subsidized folk high schools for working adults that provide courses ranging in length from a few days to 80 weeks. As of 1999, public expenditure on education was estimated at 8% of GDP.

### 44 LIBRARIES AND MUSEUMS

The four major libraries, the Royal Library at Stockholm (three million volumes) and the university libraries of Uppsala (5.4 million), Lunds (3.2 million), and Göteborg (2.7 million), receive free copies of all Swedish publications. There are technical and other special libraries, all of which have an interlibrary loan scheme with the university libraries, the state-aided municipal libraries, and the 24 county libraries. The largest public libraries are those of Stockholm (two million volumes) and Göteborg (1.6 million).

In 1997, Sweden had 324 public libraries. Altogether, the public library systems had a combined total of 46.3 million volumes. The Swedish Authors' Fund administers a library loan compensation system that pays an author royalties each time a book is borrowed.

Sweden has about 200 museums. Most of the outstanding museums are in Stockholm. Especially renowned are the rich art

collections of the Swedish National Art Museum and the sculptures of Carl Milles in the artist's former home at Millesgarden in Lidingö. In Stockholm are located the Swedish Museum of Natural History (founded 1739) and the National Museum of Science and Technology (founded 1924). The Aquaria Vatten Museum, opened in 1991, is a natural history museum that includes a shark aquarium, salmon ladder, and living rainforest. Göteborg has a number of museums including the Göteborg Art Gallery and a maritime museum reflecting the interests of that city. The finest Swedish folk museum is in Skansen, near Stockholm. Göteborg also has a public affairs museum including an exhibit of the history of the East India Tea Company of Sweden. Lund has the Museum of Cultural History and the Museum of Zoology. In Uppsala can be found the Victoria Museum for Egyptian Antiquities.

### 45 MEDIA

In 1993, the former Swedish Broadcasting Corporation was broken up and its subsidiaries became independent. One operates the two television networks, one is responsible for educational radio, and another for the four national and local radio channels and Radio Sweden, which broadcasts internationally in several languages. As of 1999, there were a total of 5 AM and 360 FM radio stations and 163 television stations. In 2000 there were 932 radios and 574 television sets for every 1,000 people. The same year there were about 507 personal computers in use for every 1,000 people, with 29 Internet service providers serving 5.6 million customers. In 1998, there were an estimated 6 million main line telephones in Sweden and an additional 3.8 million mobile cellular phones.

The Swedish press is said to be the oldest in which censorship is legally forbidden. The first regular newspaper, *Post-och Inrikes Tidningar*, appeared in 1645 and is still published. The first daily was *Norrköpings Tidningen* (1758). There are no newspaper chains in Sweden, since most newspapers and periodicals are privately owned. In 2001, there were 169 daily newspapers and 455 weeklies.

News is drawn largely from the Swedish News Agency (Tidningarnas Telegrambyrå—TT), an agency owned by the Swedish press. The accompanying table lists political orientation and average daily circulation figures for leading newspapers in 2002:

	ORIENTATION	CIRCULATION
STOCKHOLM		
<i>Aftonbladet</i>	Labor	381,200
<i>Expressen</i>	Liberal	374,200
<i>Dagens Nyheter</i>	Independent	361,600
<i>Metro</i>	Independent	252,000
<i>Svenska Dagbladet</i>	Conservative	187,600
PROVINCES		
<i>Göteborgs-Posten</i> (Göteborg)	Liberal	262,500
<i>Idag Väst</i> (Göteborg)	NA	172,800
<i>Sydsvenskan</i> (Malmö)	NA	155,600
<i>Sydsvenska Dagbladet</i> (Malmö)	Independent Liberal	119,400
<i>GT</i> (Göteborg)	NA	68,500
<i>Nerikes Allehanda</i> (Örebro)	NA	68,000
<i>Uppsala Nya Tidning</i> (Uppsala)	NA	64,400
<i>Kvällsposten</i> (Malmö)	NA	62,900
<i>Nya Wermlands-Tidningen</i> (Karlstad)	Conservative	59,500

### 46 ORGANIZATIONS

Almost all farmers are members of agricultural cooperatives, which buy supplies and sell products for the farmers and represent farmers' interests to state agencies. Over 300,000 farmers belong to a member body of the Federation of Swedish Farmers, a powerful organization that provides farmers with legal and tax advice as well as educational services on agricultural matters. There are two farm credit institutions, a dairies association, a meat marketing association, and an egg marketing

association. The National Union of Swedish Farmers (formed in 1905) supplies its members with fertilizer, seeds, feeds, and other supplies and buys their crops. There are professional organizations in agriculture, archaeology, art, engineering, ethnology, geography, geology, law, literature, mathematics, medicine, music, science, and other fields. The Swedish Medical Association is a major physicians union.

The Federation of Swedish Industries (founded 1910) is active in promoting trade. There are specialist industrial and trade associations such as those of the glass exporters and wood exporters. Chambers of commerce operate in all the principal cities and towns.

The three most distinguished scholarly organizations are the Swedish Academy (founded 1786), the Royal Academy of Letters, History, and Antiquities (founded 1753), and the Royal Academy of Arts and Sciences (founded 1776). The Nobel Foundation administers the trust fund established by Swedish scientist and inventor Alfred Nobel (1833-96) and presents the annual Nobel Prizes. The Royal Swedish Academy of Sciences assists in awarding the annual Nobel Prizes for physics, chemistry, and economic sciences. The Swedish National Council for Cultural Affairs helps promote study in arts and culture, in part by serving as an advisory council for the national cultural budget.

Numerous national youth organizations include the Association of Young Catholics in Sweden, Center Party University Students Federation, Christian Democratic Youth Union, Good Templar Youth of Sweden, Liberal Student Federation, Swedish 4-H Youth, Swedish National Union of Students, Young Left of Sweden, YMCA/YWCA, and the Swedish Guide and Scout Council. The Women's Front serves as an umbrella organization for groups campaigning for equal rights. There are strong women's groups within political parties.

International organizations with national chapters include Greenpeace, Save the Children, Amnesty International, and the Red Cross.

#### 47 TOURISM, TRAVEL, AND RECREATION

Tourism is a major industry in Sweden, although it has been stagnant since 1990 due to a value-added tax on hotels, restaurants and travel services.

Principal tourist sites include the Royal Palace in Stockholm, the "garden city" of Göteborg, the resort island of Öland off the Baltic coast, and the lake and mountain country in the north. Cultural centers in Stockholm are the Royal Opera, Royal Dramatic Theater, and Berwald Concert Hall. Popular recreational activities include soccer, skiing, ice skating, swimming, mountain climbing, and gymnastics.

The number of foreign tourists to Sweden cannot be reliably ascertained because of uncontrolled tourist movements across borders within Scandinavia; statistics of Scandinavian visitors to Sweden have not been kept since 1951. However, tourist arrivals totaled 2,746,000 in 2000, when tourism receipts reached \$4 billion. That year Sweden had 96,109 hotel rooms and 188,319 beds with a 35% occupancy rate. No passport is required for Scandinavian nationals. Citizens of Canada, the US, West European countries, and certain other nations may enter Sweden with a valid passport and do not require a visa.

In 2003 the US government estimated the cost of staying in Stockholm at \$263 per day.

#### 48 FAMOUS SWEDES

Esaias Tegnér (1782-1846), considered the national poet of Sweden, and Erik Gustaf Geijer (1783-1847), historian and poet, are the best-known Swedish writers of the early 19th century. A new impulse was given to literature by August Strindberg (1849-1912), a major literary figure whose powerful, socially oriented plays and stories reflected the advanced thought of the age. Selma

Lagerlöf (1858-1940), who won the Nobel Prize for literature in 1909, showed in her novels a depth of narrative genius reminiscent of the Norse sagas. Other Swedish winners of the Nobel Prize for literature were the novelist and poet Karl Gustav Verner von Heidenstam (1859-1940), in 1916; the novelist and short-story writer Pär Lagerkvist (1891-1974), in 1951; and the novelists Eyvind Johnson (1900-1976) and Harry Edmund Martinson (1904-78), who shared the 1974 award. A noted contemporary novelist is Vilhelm Moberg (1889-1974).

The painter, etcher, and sculptor Anders Leonhard Zorn (1860-1920) and the sculptor Carl Milles (1875-1955) are the greatest figures in Swedish art. The outstanding Swedish musician of the 19th century was Franz Adolf Berwald (1796-1868), composer of symphonies, operas, and chamber music. August Johan Söderman (1832-76) is considered the leading Swedish operatic composer. Two famous sopranos were Jenny Lind (1820-87), the "Swedish nightingale," and Christine (Kristina) Nilsson (1843-1921). Outstanding 20th-century musicians are the composers Wilhelm Stenhammar (1871-1927), Hugo Alfvén (1872-1960), Ture Rangström (1884-1947), Kurt Atterberg (1887-1974), Hilding Constantin Rosenberg (1892-1985), and the singers Jussi Björling (1910-60) and Birgit Nilsson (b.1918).

Famous 18th-century scientists were the astronomer and physicist Anders Celsius (1705-44), who devised the temperature scale named after him; the chemist Karl Wilhelm Scheele (1742-86); and the botanist Carolus Linnaeus (Carl von Linné, 1707-78), who established the classification schemes of plants and animals named after him. Emanuel Swedenborg (1688-1772) was a scientist, philosopher, and religious writer whose followers founded a religious sect in his name.

Svante August Arrhenius (1859-1927), a great pioneer in physical chemistry, is renowned for his theory of electrolytic dissociation and his speculations in the field of cosmic physics; in 1903, he was awarded the Nobel Prize for chemistry. Other Swedish Nobel Prize winners in science or medicine are Gustaf Dalén (1869-1957), for his work in automatic beacons for coast lighting (1912); Allvar Gullstrand (1862-1930), for work on dioptrics of the eye (1911); Karl Manne Georg Siegbahn (1886-1978), for work on X-ray spectroscopy (1924); Theodor Svedberg (1884-1971), for work in colloidal chemistry (1926); Hans Karl August Simon von Euler-Chelpin (b. Augsburg, 1873-1964), for work in enzyme chemistry (1929); George Karl de Hevesy (b. Budapest, 1885-1966), for work on isotopes (1943); Arne Wilhelm Kaurin Tiselius (1902-71), for investigations in electrophoresis (1948); Axel Hugo Theodor Theorell (1903-82), for work on enzymes (1955); Ragnar Arthur Granit (Finland, 1900-91), for "discoveries in primary physiological and chemical visual processes in the eye" (1967); Hannes Olof Gösta Alfvén (1908-95), for work in magnetohydrodynamics (1970); and Ulf von Euler-Chelpin (1905-83), for work on the treatment of nervous and mental disorders (1970). In addition, Kai M. Siegbahn (b.1918) shared the 1981 Nobel Prize in physics for developing spectroscopy; and Sune Karl Bergström (b.1916) and Bengt Ingemar Samuelsson (b.1934) shared the 1982 prize in medicine for their research on prostaglandins. Bergström has also served as chairman of the Nobel Foundation.

Three distinguished political economists are Karl Gunnar Myrdal (1898-1987), who was awarded the 1974 Nobel Prize in economic science for work in the theory of money and economic fluctuations and whose 1944 book *An American Dilemma* contributed to the overthrowing of legally sanctioned racial segregation in the US; Bertil Gotthard Ohlin (1899-1979), who shared the 1977 prize for his contribution to international trade theory; and Dag Hammarskjöld (1905-61), who was secretary-general of the UN from 1953 until his death and was posthumously awarded the 1961 Nobel Prize for peace. Other Swedish winners of the Nobel Peace Prize were Klas Pontus Arnoldson (1844-1916), in 1908; Karl Hjalmar Branting (1860-



1925), in 1921; Nathan Söderblom (Lars Olof Jonathan, 1866–1931), in 1930; and Alva Reimer Myrdal (1902–86), the wife of Gunnar Myrdal, in 1982. Swedish inventors who have done much to promote manufacturing and technical advances include the Swedish-American John Ericsson (1803–89), who pioneered the screw propeller and designed the first Western armored-turret warship, the *Monitor*; Alfred Nobel (1833–96), inventor of dynamite and progenitor of the Nobel Prizes; Lars Magnus Ericsson (1846–1926), who contributed much to the development of telephones; and Gustaf de Laval (1845–1913), who developed steam turbines and invented a centrifugal cream separator.

One of the most noted film directors of our times is Ingmar Bergman (b.1918); other noted directors were Victor Seastrom (Sjöström, 1879–1960) and Mauritz (Moshe) Stiller (b.Finland, 1883–1928). Famous screen personalities have included Greta Garbo (Greta Louisa Gustafsson, 1905–90) and Ingrid Bergman (1917–82). More recent stars of Swedish theater and films include Erland Josephson (b.1923), Max Von Sydow (b.1929), Ingrid Thulin (b.1929), Harriet Andersson (b.1932), and Bibi Andersson (b.1935). Sweden's sports stars include five-time Wimbledon tennis champion Björn Borg (b.1956) and Alpine skiing champion Ingemar Stenmark (b.1956).

#### 49 DEPENDENCIES

Sweden has no territories or colonies.

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# SWITZERLAND

Swiss Confederation

[French] *Suisse*; (*Confédération Suisse*); [German] *Schweiz*; (*Schweizerische Eidgenossenschaft*); [Italian] *Svizzera*; (*Confederazione Svizzera*); [Romanish] *Svizra* (*Confederaziun Helvetica*)

**CAPITAL:** Bern

**FLAG:** The national flag consists of an equilateral white cross on a red background, each arm of the cross being one-sixth longer than its width.

**ANTHEM:** The Swiss Hymn begins “Trittst in Morgenrot daher, Seh’ ich dich in Strahlenmeer” (“Radiant in the morning sky, Lord, I see that Thou art nigh”).

**MONETARY UNIT:** The Swiss franc (SwFr) of 100 centimes, or rappen, is the national currency. There are coins of 1, 5, 10, 20, and 50 centimes and 1, 2, and 5 francs, and notes of 10, 20, 50, 100, 500, and 1,000 francs. SwFr1 = \$0.7634 (or \$1 = SwFr1.31) as of May 2003.

**WEIGHTS AND MEASURES:** The metric system is the legal standard.

**HOLIDAYS:** New Year, 1–2 January; Labor Day, 1 May; Christmas, 25–26 December. Movable religious holidays include Good Friday, Easter Monday, Ascension, and Whitmonday.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

A landlocked country in central Europe, Switzerland has an area of 41,290 sq km (15,942 sq mi), extending 348 km (216 mi) E–W and 220 km (137 mi) N–S. Comparatively, the area occupied by Switzerland is slightly less than twice the size of New Jersey. Bounded on the N by Germany, on the E by Liechtenstein and Austria, on the SE and S by Italy, and on the W and NW by France, Switzerland has a total boundary length of 1,852 km (1,151 mi).

Switzerland’s capital city, Bern, is located in the western part of the country.

## <sup>2</sup>TOPOGRAPHY

Switzerland is divided into three natural topographical regions: (1) the Jura Mountains in the northwest, rising between Switzerland and eastern France; (2) the Alps in the south, covering three-fifths of the country’s total area; and (3) the central Swiss plateau, or Mittelland, consisting of fertile plains and rolling hills that run between the Jura and the Alps. The Mittelland, with a mean altitude of 580 m (1,900 ft), covers about 30% of Switzerland and is the heartland of Swiss farming and industry; Zürich, Bern, Lausanne, and Geneva (Genève) are on the plateau. The central portion of the Alps, around the St. Gotthard Pass, is a major watershed and the source of the Rhine, which drains into the North Sea; of the Aare, a tributary of the Rhine; of the Rhône, which flows into the Mediterranean; and of the Ticino, a tributary of the Po, and of the Inn, a tributary of the Danube, which flow into the Adriatic and the Black seas, respectively. The highest point in Switzerland is the Dufourspitze of Monte Rosa at 4,634 m (15,203 ft); the lowest is the shore of Lake Maggiore at less than 195 m (640 ft). The second-highest and most celebrated of the Swiss Alps is the Matterhorn (4,478 m/14,692 ft), long a challenge to mountaineers and first scaled in 1865.

Switzerland has 1,484 lakes, more than 12,900 smaller bodies of water, and many waterfalls. Lake Geneva (Léman), with an area of 581 sq km (224 sq mi), is considered the largest Swiss lake, though its southern shore is in France. Lake Neuchâtel, the

largest lake totally within Switzerland, has an area of 218 sq km (84 sq mi). Switzerland also contains more than 1,000 glaciers, many the relics of Pleistocene glaciation. The largest area of permanent ice is in the Valais.

## <sup>3</sup>CLIMATE

The climate of Switzerland north of the Alps is temperate but varies with altitude, wind exposure, and other factors; the average annual temperature is 9°C (48°F). The average rainfall varies from 53 cm (21 in) in the Rhône Valley to 170 cm (67 in) in Lugano. Generally, the areas to the west and north of the Alps have a cool, rainy climate, with winter averages near or below freezing and summer temperatures seldom above 21°C (70°F). South of the Alps, the canton of Ticino has a warm, moist, Mediterranean climate, and frost is almost unknown. The climate of the Alps and of the Jura uplands is mostly raw, rainy, or snowy, with frost occurring above 1,830 m (6,000 ft).

## <sup>4</sup>FLORA AND FAUNA

Variation in climate and altitude produces a varied flora and fauna. In the lowest zone (below 550 m/1,800 ft), chestnut, walnut, cypress, and palm trees grow, as well as figs, oranges, and almonds; up to 1,200 m (3,940 ft), forests of beech, maple, and oak; around 1,680 m (5,500 ft), fir and pine; around 2,130 m (7,000 ft), rhododendron, larches, dwarf and cembra pine, and whortleberries; and above the snow line, more than 100 species of flowering plants, including the edelweiss. Wild animals include the chamois, boar, deer, otter, and fox. There are large birds of prey, as well as snipe, heath cock, and cuckoo. Lakes and rivers teem with fish.

## <sup>5</sup>ENVIRONMENT

The Swiss have long been aware of the need to protect their natural resources. Switzerland’s federal forestry law of 1876 is among the world’s earliest pieces of environmental legislation. Since 1953, provisions for environmental protection have been incorporated in the federal constitution. A measure creating a federal role in town and rural planning by allowing the central

government to set the ground rules for the cantonal master plans took effect in January 1980.

Air pollution is a major environmental concern in Switzerland; automobiles and other transportation vehicles are the main contributors. In 1996, industrial carbon dioxide emissions totaled 44 million metric tons. Strict standards for exhaust emissions were imposed on new passenger cars manufactured after October 1987. Water pollution is also a problem due to the presence of phosphates, fertilizers, and pesticides in the water supply. The nation has 40 cu km of renewable water resources, of which 58% are used for industrial purposes. The country's cities produce about 3.1 million tons of solid waste annually.

Chemical contaminants and erosion damage the nation's soil and limit productivity. In 1986, the Swiss Federal Office of Forestry issued a report stating that 36% of the country's forests had been killed or damaged by acid rain and other types of air pollution.

Important environmental groups include the Swiss League for the Protection of Nature, founded in 1909; the Swiss Foundation for the Protection and Care of the Landscape, 1970; and the Swiss Society for the Protection of the Environment. The principal federal agency is the Department of Environment.

The bear and wolf were exterminated by the end of the 19th century, but the lynx, once extinct in Switzerland, has been reestablished. In 2001, six of Switzerland's mammal species, four bird species, and two plant species were endangered. The northern bald ibis and the Italian spadefoot toad are extinct; the false ringlet butterfly, Italian agile frog, and marsh snail are threatened.

On 1 November 1986, as a result of a fire in a chemical warehouse near Basel, in northern Switzerland, some 30 tons of toxic waste flowed into the Rhine River, killing an estimated 500,000 fish and eels. Despite a Swiss report in January 1987 that damage to the river had not been so great as was first thought, most environmentalists considered the chemical spill a major disaster.

## 6 POPULATION

The population of Switzerland in 2003 was estimated by the United Nations at 7,169,000, which placed it as number 93 in population among the 193 nations of the world. In that year approximately 15% of the population was over 65 years of age, with another 17% of the population under 15 years of age. There were 98 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is -0.05%, with the projected population for the year 2015 at 7,010,000. The population density in 2002 was 176 per sq km (457 per sq mi).

It was estimated by the Population Reference Bureau that 68% of the population lived in urban areas in 2001. The capital city, Bern, had a population of 344,000 in that year. The largest metropolitan area is Zurich, with 984,000 residents in 2000. Other large cities include Basel, 176,270; Geneva, 171,747; and Lausanne, 117,153. According to the United Nations, the urban population growth rate for 2000–2005 was 0.6%.

## 7 MIGRATION

Foreign residents in Switzerland comprised about 20% of the total population in 1998. Nearly a third of all resident foreigners were of Italian nationality; the former Yugoslavia, Spain, Portugal, Germany and Turkey were the next-leading countries of origin. In April 1987, Swiss voters approved a government plan to tighten rules on immigration and political asylum.

From the beginning of the civil war in Bosnia, Switzerland took in some 27,000 Bosnian refugees by 1997, granting most only temporary protection. In 1997, 8,000 singles and couples without children returned to Bosnia; another 2,800 returned voluntarily. Nonetheless, as a result of the drastic increase in the

number of asylum-seekers, Switzerland suspended its resettlement policy in mid-1998.

As a result of the Kosovo conflict, Switzerland again faced a major increase in asylum-seekers in 1999, totaling almost 10,000 in the month of June alone. The Swiss government offered temporary protection to about 65,000 Kosovars living in the country. However, as part of its repatriation program, the government announced it would provide generous financial assistance to those Kosovars who decided to return to their homeland before 31 May 2000. The net migration rate in 1999 was 0.49 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The four ethnolinguistic groups (Germanic, French, Italian, and Rhaeto-Romansh) that make up the native Swiss population have retained their specific characteristics. Originally, the country was inhabited by Celtic tribes in the west and south and by Rhaetians in the east. With the collapse of Roman rule, Germanic tribes poured in, among them the Alemanni and Burgundians. The Alemanni ultimately became the dominant group, and the present Alemannic vernacular (Schwyzertütsch, or Schweizerdeutsch) is spoken by nearly two-thirds of the total population as their principal language. As of 2002, 65% of the population was German; 18% was French; 10% was Italian; 1% was Romansh; and 6% was comprised of various other groups.

## 9 LANGUAGES

Switzerland is a multilingual state with four national languages—German, French, Italian, and Rhaeto-Romansh. As of 2002, 63.7% of the resident population spoke German as their principal language, predominantly in northern, central, and western Switzerland; 19.2% spoke French, mainly in the west and southwest; 7.6% Italian, primarily in the southern region closest to Italy; and 0.6% Rhaeto-Romansh, used widely only in the southeastern canton of Graubünden (Grisons). The remaining 8.9% spoke various other languages. There are numerous local dialects.

## 10 RELIGIONS

There is no official state church and religious freedom is guaranteed. However, all of the cantons financially support at least one of three traditional denominations—Roman Catholic, Old Catholic, or Protestant—with money collected through taxes. In all cantons, individuals may choose not to contribute to church taxes. As a result, since the 1990s there has been a trend of individuals formally resigning their church membership in order to avoid church taxation. Reports claim this trend accounts for a membership loss of 1 to 2% for each of the three denominations. Religious denominations as of a 2002 report stood at about 44% Roman Catholic, 47% Protestant, 7%, 4.5% Muslim, and about 1% Orthodox Christians. There are about 17,577 members of the Jewish community and about 11,748 Old Catholics. About 12% of the population claimed no religious affiliation.

## 11 TRANSPORTATION

Swiss railroads extend 4,406 km (2,738 mi). Nearly all of the railway system is electrified. Because of its geographical position, Switzerland is an international railway center, with traffic moving from France, Germany, Austria, and northern Europe through the Simplon, Lötschberg, and St. Gotthard tunnels to Italy and southern Europe.

The Swiss road network covered 71,059 km (44,156 mi) in 2002. Vehicles included 3,545,247 passenger cars, and 294,787 commercial vehicles. The longest road tunnel in the world, the 17-km (10.6-mi) St. Gotthard, in the Ticino, opened in September 1980.



LOCATION: 5°57' 24" to 10°29' 36" E; 45°49' 8" to 47°48' 35" N. BOUNDARY LENGTHS: Germany, 334 kilometers (208 miles); Liechtenstein, 41 kilometers (25 miles); Austria, 164 kilometers (103 miles); Italy, 740 kilometers (460 miles); France, 573 kilometers (355 miles).

Inland waterway (65 km/40 mi) traffic is an important component of Swiss transportation. Basel, the only river port, has direct connections to Strasbourg, the German Rhineland, the Ruhr, Rotterdam, and Antwerp. The Rhine-Rhône canal provides an alternative link between Basel and Strasbourg. There are twelve navigable lakes. During World War II, the Swiss organized a merchant marine to carry Swiss imports and exports on the high seas; in 2002, 26 ships totaling 509,943 GRT were in operation. Switzerland's merchant fleet is larger than that of any other landlocked nation.

There were 66 airports in 2001, 41 with paved runways. Swissair, partially owned by the federal and local governments, is the flag line of Switzerland. It has flights from the principal international airports at Zürich, Geneva (Cointrin), and Basel to major European cities, North and South America, the Middle East, Asia, and West Africa. In 2001, 16,914,800 passengers were

carried on scheduled domestic and international flights, and 1,642 million freight ton-km (1,020 million freight ton-mi) of service.

## 12 HISTORY

The Helvetii, a Celtic tribe conquered by Julius Caesar in 58 BC, were the first inhabitants of Switzerland (Helvetia) known by name. A Roman province for 200 years, Switzerland was a prosperous land with large cities (Avenches was the capital) and a flourishing trade. In AD 250, however, Switzerland was occupied by the Alemanni, a Germanic tribe, and in 433 by the Burgundians. The Franks, who defeated the Alemanni in 496 and the Burgundians about 534, incorporated the country into the Frankish Empire. Under Frankish rule, new cities were founded; others, such as Zürich and Lausanne, were rebuilt; and Christianity was introduced.

In 1032, some 200 years after the death of Charlemagne, king of the Franks, and the defeat of his weak successors, Switzerland became part of the Holy Roman Empire. In the 13th century, it was placed under the House of Habsburg. Harsh domination resulted in the rebellion of several cities and the formation on 1 August 1291 of the “eternal alliance” between the three forest cantons of Schwyz, Uri, and Unterwalden, the first step toward the Swiss Confederation. The Habsburgs invaded the three provinces, but with their defeat at Morgarten Pass on 15 November 1315, the Swiss secured their independence. By 1353, five other cantons, Luzern (1332), Zürich (1351), Glarus and Zug (1352), and Bern (1353), had joined the confederacy. All these allies were called Swiss (Schwyzer), after the largest canton. Four victories over Austria (1386, 1388, 1476, and 1499) confirmed the confederation. The Swiss also defeated Charles of Burgundy, whose ambitions threatened their independence until his death in 1477. Complete independence was secured by the Treaty of Basel (1499) with the Holy Roman Empire. Switzerland thereafter remained unmolested by foreign troops until the French Revolution of 1789. Such legendary or real heroes as William Tell, Arnold von Winkelried, and Nikolaus von der Flüe symbolized Swiss bravery and love of freedom. The Helvetic Confederation (Eidgenossenschaft) continued to grow with the inclusion of Aargau (1415), Thurgau (1460), Fribourg and Solothurn (1481), Basel and Schaffhausen (1501), and Appenzell (1513). As of 1513, there were 13 cantons and several affiliated cities and regions. Swiss sovereignty reached south of the crest of the Alps into the Ticino. The Swiss also controlled many of the vital mountain passes linking southern and northern Europe.

The power of the Confederation was, however, undermined by conflicts stemming from the Reformation, led by Ulrich Zwingli in Zürich and John Calvin in Geneva. Seven cantons resisted the Reformation, and a prolonged conflict resulted. In its first round, Zwingli was killed in action (1531). The Catholic cantons later allied with Savoy and Spain. The struggle with the Protestant cantons centered during the Thirty Years’ War (1618–48) on control of the Valtelline pass. The Treaty of Westphalia ending that war granted the Swiss Confederation formal recognition of independence by all European powers.

In the following centuries, the Catholic-Protestant conflict continued with varying success for each side. Apart from this struggle, a number of abortive uprisings against oligarchic control occurred in such places as Geneva and the canton of Vaud. The oligarchs were still in power in most cantons when the French Revolution broke out. With the progress of the revolution, radical groups gained the upper hand in several cities. In 1798, the Helvetic Republic was proclaimed, under French tutelage, and during the Napoleonic imperial era Switzerland was governed as an appendage of France. Boundaries were partly redrawn, and six new cantons were added to the original 13.

In 1815, the Congress of Vienna reconstituted the independent Swiss Confederation with three additional cantons (for a total of 22) and recognized its perpetual neutrality. Switzerland, however, did not remain untouched by the great conflict between liberalism and conservatism that affected all Europe in the first half of the 19th century. Many revolutionaries found temporary refuge in Switzerland and influenced some of its citizens. Under their goading, several cantons introduced more progressive governments and liberalized their old constitutions.

In 1848, a new federal constitution, quite similar to that of the United States, was promulgated. Meanwhile, the struggle between Protestants and Catholics had culminated in the Secession (Sonderbund) War of 1847, in which the Protestant cantons quickly overcame the secessionist movement of the seven Catholic cantons. As a result of the war, federal authority was greatly strengthened.

In 1874, the constitution was again revised to enlarge federal authority, especially in fiscal and military affairs. Since the last

quarter of the 19th century, Switzerland has been concerned primarily with domestic matters, such as social legislation, communications, and industrialization. In foreign affairs, it remained rigidly neutral through both world wars, resolutely determined to protect its independence with its highly reputed militia. In 1978, Switzerland’s twenty-third sovereign canton, Jura, was established by nationwide vote. In 1991, Switzerland celebrated the 700th anniversary of Confederation.

Despite its neutrality, Switzerland has cooperated wholeheartedly in various international organizations, offering home and hospitality to such diverse bodies as the League of Nations, the Red Cross, and the UPU. Switzerland has long resisted joining the UN, however, partly on the grounds that imposition of sanctions, as entailed in various UN resolutions, is contrary to a policy of strict neutrality. In a March 1986 referendum, a proposal for UN membership, approved by the Federal Assembly, was rejected by Swiss voters. Switzerland is a member of most specialized UN agencies and is a party to the Statute of the International Court of Justice. Swiss attitudes toward UN membership changed at the beginning of the 21st century, as citizens decreasingly saw participation in the UN as jeopardizing the country’s neutrality. In a referendum held on 3 March 2002, nearly 55% of Swiss voters approved of joining the UN, but approval by the country’s 23 cantons received a narrower 12 to 11 vote. On 10 September 2002 Switzerland became a full member of the UN.

Foreign governments have targeted Switzerland’s tight bank secrecy laws as providing a haven in the country for tax evasion and money laundering. The EU maintains that if Switzerland were to join the body, such laws would have to be reformed. Switzerland suffered from the global economic downturn that began in 2001; it employs 220,000 people (out of a total population of some 7 million) in financial services, of which more than half work in banking. The Swiss economy is not expected to expand until 2004. The Swiss have also expressed ambivalence toward Europe. In December 1992, the Swiss rejected participation in the two major European organizations—the European Economic Area (EEA) of the European Union (EU). Fearing adverse effects from non-participation, the Swiss government has taken steps to bring the country’s laws and economy into harmony with the EEA. Because of the fact that all legislation can be subjected to referenda, however, the government is finding it difficult to alter certain protectionist policies and to lower certain barriers. Officially, however, the government is committed to eventually joining the EU, although in order to do so it will have to convince a majority of voters it is the correct path.

### 13 GOVERNMENT

The Swiss Confederation is a federal union governed, until 2000, under the constitution of 1874, which vested supreme authority in the Federal Assembly, the legislative body, and executive power in the Federal Council. On 1 January 2000, a new federal constitution entered into force, replacing the 1874 constitution. The new constitution formally separates and codifies four pillars of Swiss constitutional law: democracy; the rule of law; social welfare; and federalism. Fundamental rights, such as freedom of speech and assembly, which had not been explicitly mentioned in the 1874 constitution, now received their formal expression.

The Federal Assembly consists of two chambers: the National Council (*Nationalrat*) of 200 members, elected by direct ballot for four-year terms by citizens 18 years of age or older, and the Council of States (*Ständerat*) of 46 members, two appointed by each of the 20 cantons and one from each of the six half-cantons, and paid by the cantons; deputies are elected according to the laws of the cantons. Legislation must be approved by both houses.

The Federal Council of seven members is elected for four-year terms by joint session of the Federal Assembly. The president and vice president of the Federal Council and of the Confederation are elected by the assembly for one-year terms and cannot be reelected to the same office until after the expiration of another year. The seven members of the Federal Council, which has no veto power, are the respective heads of the main departments of the federal government. After the 1995 elections, the Federal Council, made up of the so-called "magic formula" coalition of the far largest political parties (which has remained largely unchanged since 1959), elected as president Economic Minister Jean-Pascal Delamuraz. The Federal Council meets in secret and tries to appear congenial at all times. The president in 2003 was Pascal Couchepin.

The cantons are sovereign in all matters not delegated to the federal government by the constitution and may force federal law to a plebiscite by the right of referendum. In addition, by popular initiative, 50,000 citizens may demand a direct popular vote on any legislation or regulation proposed by the federal government, and 100,000 citizens may demand a referendum on a constitutional revision. Any proposed amendments to the constitution must be submitted for public approval.

In 1971, Swiss women were granted the right to vote in federal elections. In November 1990, the Federal Court ruled in favor of female suffrage in the half-canton of Appenzell-Inner Rhoden, the last area with male-only suffrage.

## 14 POLITICAL PARTIES

Swiss politics are generally stable, and the strengths of the chief political parties have varied little over the past several decades. The conduct of national-level politics is generally calm and is marked by mutual esteem and cooperation. On the cantonal and municipal levels, however, the give-and-take of political life is more lively and unrestrained, as well as more partisan. The ruling Federal Council is made up of what the Swiss refer to as the "magic formula" coalition, an informal, but strictly adhered to, arrangement whereby the four largest political parties fill the seven positions on the Federal Council. The three strongest parties are the Social Democratic Party, similar to the Scandinavian Social Democrats, which advocates wider state participation in industry and strong social legislation; the Radical Democratic Party, a progressive middle-class party, which favors increased social welfare, strengthening of national defense, and a democratic federally structured government; and the Christian Democrats (formerly the Christian Social-Conservatives), a clerical federalist party, which opposes centralization of power. The Center Democratic Union (Swiss People's Party) was formed in 1971 by a union of the Farmers, Traders, and Citizens Party, which favored agrarian reform, protective tariffs, and a stronger national defense, and the Democratic Party, a leftist middle-class group. Other parties include the League of Independents, a progressive, middle-class consumers' group; the Communist-inclined Workers Party, with some strength in Zürich, Basel, and Geneva; the Liberal Party; and the Independent and Evangelical Party, which is Protestant, federalist, and conservative. In 1985, two small right-wing parties were formed: the National Socialist Party and the Conservative and Liberal Movement.

After the October 1991 elections the Radical Democratic Party held 44 seats, Social Democrats 42 seats, Christian Democrats 37 seats, Swiss People's Party 25 seats, Greens 14 seats, Liberals 10 seats, and minor parties, 28 seats.

In the Council of States, the 46 seats were distributed as follows in 1991: Radical Democratic Party 18 seats, Christian Democrats 16 seats, Social Democrats 4 seats, Liberals 3 seats, Independents 1 seat, and Ticino League 1 seat.

The 1995 elections for the National Council saw the Radical Democratic Party take 45 seats; the Social Democratic Party, 54; the Christian Democratic People's Party, 34; the Swiss People's

Party, 30; the Greens, 8; the Liberal Party, 7; the Alliance of Independents Party, 6; the Swiss Democratic Party, 3; the Evangelical People's Party, 3; the Workers' Party, 2; and the Ticino League, 2.

In the Council of States, the 46 seats were distributed as follows: Radical Democrats, 17; Christian Democrats, 17; Swiss People's Party, 4; Social Democrats, 3; Liberals, 3; Independents, 1; Ticino League, 1.

Following the October 1999 elections, the Social Democratic Party took 51 seats; the Swiss People's Party took 44; the Radical Democratic Party, 43; Christian Democrats, 35; Greens, 9; Liberals, 6; Evangelical People's Party, 3; the xenophobic Swiss Democratic Party, 1; the conservative Federal Democratic Union, 1; the Workers' Party, 2; the Ticino League, 2; Independents, 1; the socialist party Solidarities, 1; and the progressive Christian Social Party, 1.

In the Council of States after the 1999 elections, the Radical Democratic Party held 18 seats; the Christian Democrats held 15; the Swiss People's Party had 7; and the Social Democrats held 6.

## 15 LOCAL GOVERNMENT

The Swiss Confederation consists of 23 sovereign cantons, three of which are divided into half-cantons (i.e., 20 cantons and six half-cantons). The most recent of these, Jura, was formed from six French-speaking districts in the German-speaking area of Bern Canton in 1978. In 1993, the German-speaking Laufental district of Beru joined the canton of Basel-Land. This was the first time a political unit in Switzerland left one canton to join another. Swiss cantons are highly autonomous and exercise wide administrative control, with the weak federal government controlling only foreign affairs, national security, customs, communications, and monetary policy. The cantons have their own constitutions and laws, and are responsible for their own public works, education, care of the poor, justice, and police forces. Local forms of government vary, but each canton has a legislative council (called Grand Conseil, Grosse Rat, Kantonsrat, or Gran Consiglio), which appoints a chief executive. In a few of the small cantons, the general assembly of all voting citizens, or Landsgemeinde, decides on major matters by voice vote; in the majority of the cantons, this ancient institution has been replaced by referendum. Communes, numbering over 3,000, are the basic units of local government. For the most part, Swiss districts (Bezirke), constituting a middle level of organization between the cantons and communes, are little more than judicial circuits.

## 16 JUDICIAL SYSTEM

The Federal Court of Justice in Lausanne is composed of 30 permanent members appointed for six-year terms by the Federal Assembly. Until 2000, the court had both original and final jurisdiction in the majority of cases where a canton or the federal government was involved, and was the highest appeals court for many types of cases. Judicial reforms carried out in 2000 reduced the caseload of the Federal Court, by creating a federal criminal court and federal administrative bodies with judicial competence. Now, the Federal Court exists as a pure appellate court.

Each canton has its own cantonal courts. District courts have three to five members and try lesser criminal and civil cases. Each canton has an appeals court and a court of cassation, the jurisdiction of which is limited to reviewing judicial procedures. Capital punishment was abolished in 1942. Minor cases are tried by a single judge, difficult cases by a panel of judges, and murder and other serious crimes by a public jury.

The judiciary is independent and free from interference by other branches of government. The trials are fair and the judicial process is efficient. The judicial system is based on civil law influenced by customary law. Switzerland accepts compulsory jurisdiction of the International Court of Justice.

## 17 ARMED FORCES

The Swiss army is a well-trained citizen's militia, composed of three field army corps and one alpine field corps. In 2002 the active armed forces consisted of 3,500 officers, with the ability to mobilize 320,400 trained troops within 48 hours. The country has universal compulsory military service for males at age 19–20, followed by varied annual training requirements until age 42 (55 for officers), with exemption only for physical disability. Initial basic training of 15 weeks is followed by regular short training periods. The paramilitary consists of a civil defense force of 280,000 members. Equipment included 556 main battle tanks, and the Air Corps has 138 combat aircraft.

Swiss fighting men are world famous, and from the 16th to the 19th century some two million Swiss served as mercenaries in foreign armies. The modern Swiss citizen-soldier is trained only for territorial defense in prepared mountain positions, which is his only mission. A continuing legacy of Swiss mercenary service is the ceremonial Vatican Swiss Guard. Switzerland participates in seven international peacekeeping operations. Military spending was an estimated \$2.5 billion in 2001, or 1.0% of GDP.

## 18 INTERNATIONAL COOPERATION

Although it was a member of and served as the site for the League of Nations and is today the headquarters of many UN committees, Switzerland was not a member of the UN until 2002, partly from a fear of compromising traditional Swiss neutrality. The country participates in ECE and in all the non-regional specialized agencies; has actively participated in the OSCE; and has long played host to international organizations, such as ILO, UPU, and the International Red Cross. The nation is also a member of the Asian Development Bank, Council of Europe, EFTA, and OECD; holds permanent observer status in the OAS; and is a signatory to the Law of the Sea and a member of the WTO. However, it is not a member of ECSC, the EU, or EURATOM, again partly because of its neutralist posture. Switzerland is also the repository of the Geneva Convention, governing treatment of civilians, prisoners, and the wounded in wartime.

## 19 ECONOMY

Because of the paucity of its minerals and other raw materials and its limited agricultural production, Switzerland depends upon imports of food and fodder and of industrial raw materials, which it finances with exports of manufactured goods. Agriculture is important, though limited by a scarcity of level and fertile land, but manufacturing engages more than five times as many workers as farming. Swiss manufacturers excel in quality of workmanship rather than quantity of output. Other important branches of the economy include international banking, insurance, tourism, and transportation. Switzerland was less affected than most other nations by the worldwide recession of the early 1980s and experienced a strong recovery beginning in 1983. However, between 1986 and 1992, GNP grew by an annual average of only 0.7% and it fell in 1991, 1992, and 1993. From 1993–95, growth averaged barely 1% a year and decreased once again in 1996. In 1998, however, it grew by 2% and by 1.9% in 1999, before soaring, relatively speaking, 3.4% in 2000. The global international slowdown in 2001 and the appreciation of the Swiss franc brought small contractions in 2001 (-0.9%) and 2002 (-0.2%). From 1990 to 1992, the annual inflation rate averaged 5.1%. By 1994 inflation had plummeted to 0.9%; it was 1.8% in 1995, 0.8% in 1996, and 0% in 1998. From 1999 to 2002, average annual inflation was about 1%. Swiss unemployment has remained consistently low in comparison with other countries, although it reached an unusually high 4.5% in 1993. In 1994 unemployment was 3.8%, and 3.6% in 1998—rates a fraction of France and Germany. Unemployment fell

further, to an average annual rate of 2.3%, 1999 to 2002. Meanwhile, the Swiss GDP per capita—in 2001, \$35,399 in nominal terms and \$31,100 in purchasing power parity terms (CIA est.)—continued to be among the highest in the world.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 Switzerland's gross domestic product (GDP) was estimated at \$231 billion. The per capita GDP was estimated at \$31,700. The annual growth rate of GDP was estimated at 2%. The average inflation rate in 2002 was 0.5%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 2% of GDP, industry 34%, and services 64%.

According to the United Nations, in 2000 remittances from citizens working abroad totaled \$125 million or about \$17 per capita and accounted for approximately 0.1% of GDP. Worker remittances in 2001 totaled \$125 million.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$28,581. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 2%. Approximately 19% of household consumption was spent on food, 9% on fuel, 3% on health care, and 18% on education. The richest 10% of the population accounted for approximately 25.2% of household consumption and the poorest 10% approximately 2.6%.

## 21 LABOR

In 2001, the workforce numbered approximately four million. The service sector employed 69%, with 26% engaged in industry, and 5% in agriculture. Foreign workers account for about 30% of the workforce, and 40% of the total unemployed; they now have long-term residence rights, which entitle them to the same unemployment benefits as jobless Swiss workers. In 2002 unemployment was only 1.9%.

About one quarter of the labor force was unionized in 2002. Swiss law provides for and regulates union organization and collective bargaining. Most labor disputes are settled on the basis of a so-called peace agreement existing since 1937 between the head organizations of employers and employees. Other collective disputes are dealt with by the various cantonal courts of conciliation. Strikes are rare and Switzerland generally records the lowest number of days lost to strikes in the OECD. There have been fewer than 10 strikes per year since 1975.

The legally mandated maximum workweek is set at 45 hours for most employees. Minors as young as 13 may perform light work for up to nine hours per week. There are severe restrictions on the hours and conditions of employment of workers until the age of 20. There is no government mandated minimum wage. The Federal Labor Act and the Code of Obligations mandate various other workplace requirements.

## 22 AGRICULTURE

Some 444,000 ha (1,097,000 acres), or about 11% of the country's total land area, is under seasonal or permanent crops. Most of the cultivable land is in the Mittelland, or central plateau, and the cantons regularly producing the largest quantities of wheat are Bern, Vaud, Fribourg, Zürich, and Aargau. Soil quality is often poor, but yields have been increasing as a result of modern technology. In 2001, agriculture contributed 2% to GDP.

Agricultural production provides only about 60% of the nation's food needs. Although productivity per worker has been

increasing steadily, the proportion of the total labor force engaged in agriculture has fallen from 30% in 1900 to about 4.3% in 1999. Between 1955 and 1985, the number of farm holdings fell from 205,997 to 119,731. Some principal crops, with their production figures for 1999, were as follows: potatoes, 484,000 tons; sugar beets, 1,187,000 tons; wheat, 500,000 tons; barley, 263,000 tons; maize, 183,000 tons; oats, 30,000 tons; and rye, 19,000 tons. In the same year, a total of 130,000 tons of wine were produced, and there were 15,000 hectares (37,000 acres) of vineyards.

Swiss agricultural policy is highly regulated, with fixed prices and quota restrictions maintained on several products. Domestic production is encouraged by the imposition of protective customs and duties on imported goods, and by restrictions on imports. The Federal Council has the authority to fix prices of bread grains, flour, milk, and other foodstuffs. Production costs in Switzerland, as well as international exchange rates favorable to the Swiss franc, make competition with foreign products difficult. This highly protectionist system has led to excess production and mounting costs associated with the management of surpluses. The Uruguay Round and subsequent Swiss implementation of its provisions in July 1995 (along with rising costs in the agricultural sector) has forced the government to begin reforming its agricultural support system.

### 23 ANIMAL HUSBANDRY

More than half of Switzerland's productive area is grassland exploited for hay production and/or grazing. Livestock production contributes about 2% to GDP. Dairying and cattle breeding are practiced, more or less intensively, in all but the barren parts of the country and, during the summer months, even at altitudes of more than 1,200 m (4,000 ft). In 2001 there were 1,611,000 head of cattle and 1,548,000 pigs, 420,000 sheep and 63,000 goats. Meat production in 2001 included (in tons): pork, 234,000; beef, 138,000; poultry, 50,000; mutton/lamb, 6,000; and horse meat, 2,000. Swiss cheeses are world famous; production was 174,000 tons in 2001. That year, 36,000 tons of eggs were produced.

While home production almost covers or exceeds the domestic requirements for milk and dairy products, substantial quantities of eggs and meat must be imported. Selective cattle breeding, research, and improvement of production standards are promoted by the federal government and by farmers' cooperatives. Exports of milk, dairy products, and eggs amounted to \$319.2 million in 2001.

### 24 FISHING

Fishing is relatively unimportant but is carried on in many Swiss rivers and on lakes Constance, Neuchâtel, and Geneva. The total catch was 1,659 tons in 2000. Rainbow trout, whitefish, and perch are the main species. Local fish supply about 12% of domestic needs.

### 25 FORESTRY

Forests occupied 1,199,000 hectares (2,962,000 acres) in 2000. About two-thirds of the forested land is owned by communes; most of the remainder is owned privately. Federal and cantonal governments account for about 8%. About 80% of the wood in Swiss forests is coniferous, primarily spruce; the remaining 20% is deciduous, predominantly red beech.

The timber cut yielded 10,428,000 cu m (368 million cu ft) of roundwood in 2000, with 20% used as fuel wood. Forestry production in 2000 amounted to about 1,625,000 cu m (57 million cu ft) of sawnwood, 1,777,000 tons of paper and paperboard, and 274,000 tons of wood pulp. The trade deficit in forestry products amounted to \$137 million in 2000.

### 26 MINING

Mining, exclusively of industrial minerals for construction, played a minor role in Switzerland's economy. Metal mining has ceased, reserves of the small deposits of iron, nickel-cobalt, gold, and silver were mostly depleted, and new mining activities were discouraged for environmental reasons. Minerals produced in 2001 included hydraulic cement, common clay, gravel, gypsum, lime, nitrogen, salt, sand, stone, and sulfur (from petroleum refining). Metal processing—restricted to primary and secondary aluminum, secondary lead, and steel—depended on imported raw materials or scrap; environmental concerns have led to a policy to curtail or gradually cease smelting activities. The production of chemicals was Switzerland's second-leading industry and export commodity in 2002, and steel was the third top export commodity. A large diamond center, Switzerland was actively involved in cutting and polishing diamonds, and played a big role in international trade activities.

### 27 ENERGY AND POWER

Switzerland is heavily dependent on imported petroleum, which supplied 50% of the primary energy consumed in 1995. Between 1970 and 1995, the share of natural gas in primary energy consumption rose from 1.3% to 8.5%. Switzerland's electric power plants had an installed capacity of 15,657 million kW in 2001, of which hydroelectric plants accounted for about three-quarters. Electricity production totaled 62,700 million kWh, of which 4% was from fossil fuels, 56.8% from hydropower, 36.9% from nuclear power, and 2.3% from renewable sources. In 1996 there were five nuclear plants in operation. In 1988, the government suspended plans to build a sixth reactor at Kaiseraugst (near Basel) because of pressure from environmentalists. Two other nuclear facilities, which were in the early stages of planning, are not likely to be built in the near future. The only natural gas produced in Switzerland comes from the Finsterwald Field, in the Lucerne canton. Natural gas consumption, which totaled 2.2 billion cu m in 1995, came mostly from the Netherlands, the Norwegian sections of the North Sea, and the former USSR. Switzerland discourages the burning of coal and other hydrocarbons.

### 28 INDUSTRY

Manufacturing industries, although declining in importance, still contributed 34% of GDP (including construction) in 2002. The industrial growth rate in 2001 was 3.2%. Swiss industries are chiefly engaged in the manufacture, from imported raw materials, of highly finished goods for domestic consumption and for export. Most of the industrial enterprises are located in the plains and the Swiss plateau, especially in the cantons of Zürich, Bern, Aargau, St. Gallen, Solothurn, Vaud, Basel (Baselstadt and Baseland), and Thurgau. Some industries are concentrated in certain regions: the watch and jewelry industry in the Jura Mountains; machinery in Zürich, Geneva, and Basel; chemical industries (dyes and pharmaceuticals) in Basel; and the textile industry in northeastern Switzerland. In 1993, the industrial sector was targeted for assistance by a government-initiated revitalization program; in 1995, the sector again benefited from government policy when the turnover tax was replaced by a value-added tax system, expected to relieve industry of SwFr1–2 billion per year in taxes. Switzerland, along with Germany and Japan, is at the forefront of the emerging industry of environmental technology.

The textile industry, using wool, cotton, silk, and synthetics, is the oldest Swiss industry and remains important. The machine industry, first among Swiss industries today, produces goods ranging from heavy arms and ammunition to fine precision and optical instruments. Watches and machinery represent about 42% of the total Swiss export value. (By themselves, the world-



famous Swiss watches account for 8% of exports and command 50% of the world market.) Chemicals, especially dyes and pharmaceuticals, also are important. About 10% of the world's medicines are produced by three companies in Basel. Despite agricultural problems, Switzerland has also developed a major food industry, relying in part on the country's capacity for milk production. Condensed milk was first developed in Switzerland, as were two other important processed food products: chocolate and baby food. The Swiss company Nestlé S. A., headquartered in Vevey, is one of the world's largest food companies. Because of shifts in foreign demand, some of Switzerland's major industries, such as textiles, nonmetallic minerals, and watchmaking and clockmaking, have declined in importance in recent years, while others, such as chemicals, plastics, and paper, have grown rapidly.

## 29 SCIENCE AND TECHNOLOGY

The major scientific learned societies, headquartered in Bern, are the Swiss Academy of Sciences, founded in 1815, and the Swiss Academy of Engineering Sciences, founded in 1981. About two-thirds of the funds for Swiss research and development—a high proportion by world standards—are supplied by industry and the rest by federal and cantonal governments. In 1987–97, expenditures for research and development totaled 2.6% of GNP. In the same period, 3,000 scientists and 1,374 technicians per million people were engaged in research and development. The Swiss National Science Foundation was established in 1952 to finance noncommercial research for which funds would not otherwise be available. Most such spending is in the important chemicals sector. The Ministry of Public Economy, the center for federal agricultural research, has six research stations. In 1998, high-tech exports were valued at \$12 billion and accounted for 16% of manufactured exports.

## 30 DOMESTIC TRADE

Zürich, the largest city, is the commercial, financial, and industrial center of Switzerland. Basel is the second most important commercial city, followed by Geneva and Lausanne. Most Swiss wholesale firms are importers as well, specializing in one commodity or a group of related commodities.

The trend in retail trade is moving from independent establishments to larger supermarkets, department stores, and discount chains. As such, many small retailers have joined together to form purchasing cooperatives. As of 2002, there were over 150 franchise firms within the country, including domestic, American, and French investors. Companies sponsoring home shopping parties (Tupperware, Mary Kay, Body Shop, etc.) have also become very popular. Some agricultural products, such as butter, grains, and edible fats and oils, are subject to import controls and price controls apply to many goods and services. The use of electronic debit cards for purchases is growing rapidly.

Advertising, mostly entrusted to firms of specialists, uses as media billboards, movie theaters, television, local transportation facilities, railroads, newspapers, and magazines.

Usual business hours are from 8 AM to noon and, except on Saturdays, from 2 to 6 PM. Shops are normally open from 8 AM to 12:15 PM and from 1:30 to 6:30 PM on weekdays but only to 4 PM on Saturdays; some shops stay open at lunchtime but close on Monday mornings. Banks are open to the public from 8:30 AM to 4:30 PM Monday–Friday. The five-day workweek is becoming popular; the extent to which weekday working hours are lengthened depends on whether offices are closed every Saturday or only on alternate Saturdays.

## 31 FOREIGN TRADE

Switzerland's annual trade balance is habitually in arrears, owing to the economy's reliance on large quantities of imported raw materials for industry. Switzerland's export commodities are split into two categories: machinery sold to other manufacturers, and commodities used by consumers. The country exports a large number of the world's watches and clocks. The top 10 exports are listed below:

	% OF COUNTRY TOTAL
Medicinal and pharmaceutical products	13.1
Watches and clocks	7.4
Other machinery for special industry	3.5
Metalworking machinery and tools	3.3
Nitrogen	2.7
Measuring and controlling instruments	2.4
Switchgears	2.2
Textile and leather machinery	1.8
Gold, silver ware, and jewelry	1.8
Pearls, precious and semiprecious stones	1.6

In 2000 Switzerland's imports were distributed among the following categories:

Consumer goods	23.7%
Food	4.9%
Fuels	4.5%
Industrial supplies	32.2%
Machinery	23.1%
Transportation	11.4%
Other	0.2%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Germany	17,488	24,334	-6,846
United States	10,680	6,555	4,125
France	7,204	8,542	-1,338
Italy	6,276	7,766	-1,490
United Kingdom	4,609	4,874	-265
Japan	3,457	2,354	1,103
China (inc. Hong Kong)	3,144	1,916	1,228
Austria	2,492	2,965	-473
Netherlands	2,489	4,733	-2,244
Belgium	1,546	2,485	-939

## 32 BALANCE OF PAYMENTS

In the past Switzerland typically had a foreign trade deficit. More recently, however, this imbalance was more than compensated for by income from services, investments, insurance, and tourism. Restructuring of enterprises in the 1990s, due to the strength of the Swiss franc, caused the export-oriented manufacturing sector to become highly successful. Exports of goods and services amounted to some 46% of GDP in 2000.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of Switzerland's exports was \$100.3 billion while imports totaled \$94.4 billion resulting in a trade surplus of \$5.9 billion.

The International Monetary Fund (IMF) reports that in 2001 Switzerland had exports of goods totaling \$95.8 billion and imports totaling \$94.3 billion. The services credit totaled \$27.7 billion and debit \$15.3 billion. The following table summarizes Switzerland's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>22,624</b>
Balance on goods	1,564
Balance on services	12,457
Balance on income	12,677
Current transfers	-4,073
<b>Capital Account</b>	<b>189</b>
<b>Financial Account</b>	<b>-30,691</b>
Direct investment abroad	-11,052
Direct investment in Switzerland	8,628
Portfolio investment assets	-42,840
Portfolio investment liabilities	1,896
Other investment assets	23,059
Other investment liabilities	-10,382
<b>Net Errors and Omissions</b>	<b>8,516</b>
<b>Reserves and Related Items</b>	<b>-638</b>

### 33 BANKING AND SECURITIES

In 2000, Switzerland had two major banks, 24 cantonal banks, and numerous foreign-owned banks, savings banks, and other banks and finance companies. There were a total of 375 banks in the country in that year. The bank balance-sheet total per capita in Switzerland is higher than that of any other nation in the world. Total assets of the Swiss banking system amounted to \$1.3 trillion at the end of 2000, while total securities deposits were \$3.4 trillion. Moreover, registered banks and bank-like finance companies numbered 494 in 1995, offering the Swiss, on average, the greatest access to banking services of all the world's nations.

The government-supervised Swiss National Bank, incorporated in 1905 and the sole bank of issue, is a semiprivate institution owned by the cantons, by former banks of issue, and by the public. The National Bank acts as a central clearinghouse and participates in many foreign and domestic banking operations. The two big banks, (United Bank of Switzerland (UBS) and Credit Suisse Group) dominate the Swiss banking scene and are expanding aggressively overseas. They are universal banks, providing a full range of services to all types of customers.

Regional banks specialize in mortgage lending and credits for small businesses. Since 1994, most of the country's regional banks have been linked in a common holding company providing back-office operations and other services to members in a bid to cut costs.

Foreign banks make up about a third of banks active in Switzerland. In contrast to domestic banks, their numbers have risen over the last decade but their business is increasingly focused on asset management, mostly of funds from abroad. On 1 January 1995 a new banking law came into effect allowing for foreign banks to open subsidiaries, branches, or representative offices in the country without first getting approval of the Federal Banking Commission.

The transactions of private and foreign banks doing business in Switzerland traditionally play a significant role in both Swiss and foreign capital markets; however, precise accounting of assets and liabilities in this sector are not usually made available as public information. Switzerland's strong financial position and its tradition (protected by the penal code since 1934) of preserving the secrecy of individual bank depositors have made it a favorite depository with persons throughout the world. (However, Swiss secrecy provisions are not absolute and have been lifted to provide information in criminal investigations.) The Swiss Office for Compensation executes clearing traffic with foreign countries.

In 1997 Swiss banks came under heavy criticism for losing track of money, gold, and other valuables belonging to Jewish Holocaust victims and held by the banks during World War II. Records also showed the banks had closed thousands of victims' accounts without notice after the war. The banks claimed they had lost the old records, but a group of journalists found the records archived in Lausanne in April of that year.

Also in 1997, an embarrassed Swiss government selected four members to a panel empowered to run a fund for Holocaust victims. Nobel laureate Elie Weisel, a concentration camp survivor, turned down an invitation to serve as one of the three foreign members on the board. The fund, intended to help impoverished Holocaust victims and their families, is supported by funds appropriated by Nazis from Jews sent to concentration camps. Much of the gold, jewels, bonds, and currency taken by the Nazis had been placed in Swiss banks. In March 1998, Switzerland's banks agreed to create a \$1.25 billion fund designed to compensate Holocaust survivors and their families.

Swiss banks were also under fire in 1997 for possibly facilitating money laundering of drug money accrued by a former Mexican president's brother and for failing to adequately recover the billions of dollars supposedly plundered by former Zairean dictator Mobutu Sese Seko, who was overthrown that year. All the negative publicity has caused some to question the usefulness of Swiss banks' much-lauded secrecy.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$102.9 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$326.3 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 1.65%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 1.59%.

Stock exchanges operate in Geneva (founded 1850), Basel (1875), and Zürich (1876). The Zürich exchange is the most important in the country. In terms of market capitalization, the Swiss stock exchanges rank seventh in the world, behind New York, Tokyo, Osaka, London, Frankfurt, and Paris, as of 1997. Overall, turnover, including shares, bonds, and options, amounted to CHF1.2 trillion in 2002, a drop of 2.3% from the prior year. The open outcry stock exchanges in Zürich, Geneva, and Basel closed in 1994 when a national electronic stock exchange for all securities trading began operations in August.

### 34 INSURANCE

The Swiss people are the most heavily insured in the world, although this reflects social insurance such as health insurance as well as more commercial types of business. Nevertheless, Swiss insurers now rely on foreign business for two-thirds of their premium income. The insurance sector has been steadily deregulated during the 1990s. One of the last set of controls was scrapped in 1996 when the fixed tariff regime for third-party vehicle insurance was abolished. As of 1999, Swiss insurance companies numbered over 100.

Switzerland controls an estimated one-third of the world's reinsurance, and insurance income represents a major item in the Swiss balance of payments. Insurance investments are represented heavily in the Swiss capital market, and Swiss insurance firms have invested widely in foreign real estate. About half the domestic insurance business is in the hands of the state. The Swiss Reinsurance Co. in Zürich is the largest of its kind in the world. As of 1999, about 10% of all Swiss insurance companies dealt solely with reinsurance. There are several types of compulsory insurance in Switzerland, including workers' compensation, third-party automobile liability, fire, pension, hunters', aircraft, nuclear power station, old age, unemployment, and disability insurance. In 1999, the total income of the Swiss domestic insurance market was 48 million, making it the twelfth largest insurance market globally.

### 35 PUBLIC FINANCE

The Swiss government has been known historically for maintaining a relatively high degree of austerity in comparison to its European neighbors. In 1991, the federal government incurred

a budget deficit of over SwFr1.5 billion, the first budget discrepancy in seven years. Cantonal budgets also were in deficit. These deficits continued throughout the 1990s, prompting governments at all levels to take further cost-cutting steps. As an international creditor, debt management policies are not relevant to Switzerland, which participates in the Paris Club debt reschedulings and is an active member of the OECD.

The US Central Intelligence Agency (CIA) estimates that in 2001 Switzerland's central government took in revenues of approximately \$30 billion and had expenditures of \$30 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	30,000
Tax revenue	81.4%	24,409
Non-tax revenue	6.2%	1,852
Capital revenue	0.1%	19
Grants	12.4%	3,719
EXPENDITURES	100.0%	30,000
General public services	4.2%	1,259
Defense	4.6%	1,390
Public order and safety	0.5%	151
Education	2.4%	717
Health	19.5%	5,844
Social security	48.5%	14,562
Housing and community amenities	0.7%	200
Recreation, cultural, and religious affairs	0.4%	123
Economic affairs and services	10.3%	3,093
Other expenditures	5.5%	1,645
Interest payments	3.4%	1,018

### 36 TAXATION

The Swiss Confederation, the cantons, and the communes all levy taxes on income or profits. Periodic federal, cantonal, and communal taxes also are charged against capital values belonging to corporations and other corporate entities. The cantons all levy wealth taxes based on individual net assets, stamp duties, taxes on entertainment or admissions, and special charges for educational, social, and sanitary services. Most cantons also levy a tax surcharge on members of certain major churches for the support of those religions. Localities may impose taxes on land, rents, and entertainment, as well as a head tax and a dog tax.

Federal tax is levied on income at rates ranging from 1% to 13% on net incomes between SwFr 20,800 and SwFr 659,000. Anything above SwFr 556,500 for individuals and SwFr 659,000 for married taxpayers is taxed at a flat rate of 11.5%. Various deductions and personal allowances are granted according to circumstances. Those between the ages of 20 and 50 who do not fulfill their military obligation are liable for an additional tax. Cantonal and communal taxes are generally imposed at progressive rates. In 1995 Switzerland replaced its old system of taxing turnover with a value-added tax similar to those of its European neighbors. The VAT (of 6.5% for most sectors) is levied on all deliveries of goods and services, including investments, consumer goods, animals and plants, consulting and entertainment services, license fees, and the sale of rights. The VAT is also levied on imported goods and services. The rationale behind the creation of the new tax system for businesses was that the old system didn't allow companies to deduct the turnover tax on investment purchases—imposing what businesses insisted was a "hidden" tax. There are also miscellaneous federal taxes, such as stamp duties, a value-added tax of 6.5%, and excise taxes.

### 37 CUSTOMS AND DUTIES

Switzerland joined EFTA in 1960 and became a full member of the GATT group in 1966. In 1973, Switzerland entered into an industrial free trade agreement with the European Community (now the European Union); duties on industrial imports from the European Community were eliminated by 1977. Although it generally favors free trade, Switzerland protects domestic agriculture for national defense reasons and its customs tariff, established in 1921, is primarily a revenue-raising instrument. Specific duties—low for raw materials, moderate for semi-finished goods, and high for manufactured goods—are levied by weight of import. Import duties average 3.2% on industrial goods. Switzerland gives preferential treatment to imports from developing nations. Other import taxes include a 3% statistical tax, a standard 7.6% value-added tax, and an environmental tax; specific luxuries like cigarettes and spirits are subject to an excise tax. Quotas regulate the importation of certain agricultural items such as white wine.

### 38 FOREIGN INVESTMENT

There are no restrictions on foreign investment except in real estate. Federal grants are offered for investments in depressed areas. The cantonal governments offer tax and non-tax incentives for new investments or extensions of existing investments on a case-by-case basis.

In 1997 total foreign direct investment (FDI) stock in Switzerland exceeded \$56.58 billion (22% of GDP). US companies accounted for 23% of that total. By 1999, FDI stock had risen to over \$83 billion (32% of GDP), and the United States share to 26.6%. FDI inflows were \$6.6 billion in 1997, climbing to a peak of \$16.3 billion in 2000, before falling back to about \$10 billion in 2001.

Stocks of Swiss FDI abroad totaled \$170 billion (62.3% of GDP) in 1997 rising to \$205.2 billion (79% of GDP) in 1999. In 1999, the largest holders of Swiss outward FDI were the United States (with \$45 billion, 23%); the United Kingdom (\$23.7 billion, 11.5%); Germany (\$17.4 billion, 8.5%); the Netherlands (\$12.5 billion, 6.1%); and France (\$10.4 billion, 5%).

### 39 ECONOMIC DEVELOPMENT

Private enterprise is the basis of Swiss economic policy. Although government intervention has traditionally been kept to a minimum (even with monopolistic formations), international monetary crises from late 1974 to mid-1975 led to imposition of various interim control measures; in 1982, with inflation rising, a constitutional amendment mandating permanent government price controls was approved by popular referendum. The Swiss National Bank has followed a general policy of limiting monetary growth. To further raise the standard of living, the government also grants subsidies for educational and research purposes, promotes professional training, and encourages exports. Although certain foreign transactions are regulated, there is free currency exchange and a guarantee to repatriate earnings of foreign corporations.

The cause of the remarkable stability of Switzerland's economy lies in the adaptability of its industries; in the soundness of its convertible currency, which is backed by gold to an extent unmatched in any other country; and in the fact that the particular pattern of Swiss democracy, where every law may be submitted to the popular vote, entails taking into account the wishes of all parties whose interests would be affected by a change in legislation.

Switzerland's development assistance program takes the form of technical cooperation, preferential customs treatment for certain third-world products, and a limited number of bilateral aid arrangements.

The question of future European Union (EU) membership remains a point of contention among Swiss. The French-speaking minority overwhelmingly favors EU membership, while the German-speaking majority strongly opposes it. In a 2000 referendum, Swiss voters approved closer ties to the EU. Some of the key provisions of the deal included agreement to allow EU trucks transit rights through Switzerland, as well as granting Swiss freedom of movement in the EU after 2003 with no Swiss reciprocity until 2013. Although “Europhiles” (those in support of EU membership) hailed the outcome of referendum, “Euroskeptics” (those opposed) also claimed victory by claiming that the provisions of the referendum reflected the extent of the Swiss public’s acceptance of EU intrusion.

Switzerland’s economy was in recession in late 2002, and growth was stagnant in 2003 at 0.3%; it was only forecast for 1.2% in 2004. The financial sector was particularly affected by the slowdown in the economy. Inflation remained negligible, however, and the external current account ran a surplus. Interest rates were near zero, and the Swiss franc appreciated. A new ordinance covering the banking sector was enacted in 2002, to combat money laundering and the financing of terrorism. Switzerland joined the UN in 2002.

#### 40 SOCIAL DEVELOPMENT

The social insurance system is financed by both employer and employee contributions as well as governmental subsidies. There is also a mandatory occupational pension system funded by contributions from employees and employers. Old-age pensions are paid at age 65 for men and 63 for women. Full pensions are only available if contributions were made in all years from the age of 21. Disability and Survivorship pensions are also available to qualified recipients. Sickness and Maternity benefits were first implemented in 1911. Medical care is available to all persons living in Switzerland, and there is a voluntary insurance plan for all employees to provide cash benefits. Maternity benefits are payable up to 16 weeks. Work injury insurance is compulsory, with contribution rates varying according to risk. Unemployment and disability is also covered. Family allowances are provided by the cantons, but there is a federal program covering agricultural workers.

The law provides for equal pay and prohibits gender discrimination, but there is significant bias against women in the workplace. Women earn 22% less than men for the same job and educational level. There are few women in managerial positions, and they are also promoted less than men. Sexual harassment in the workplace continues, although laws and advocacy groups work to eradicate the problem. The Federal Office for Equality Between Women and Men and the Federal Commission on Women are charged with eliminating all types of gender discrimination. Physical and sexual violence against women and domestic abuse persist.

Extremist organizations continue physical and verbal attacks on religious, racial, and ethnic minorities. The government is taking some action to curtail the activities of these groups. Human rights are generally respected in Switzerland.

#### 41 HEALTH

Health standards and medical care are excellent. The pharmaceuticals industry ranks as one of the major producers of specialized pharmaceutical products. Managed-care systems are widely used, especially with a “gatekeeper” component to control costs. In 1998, Switzerland reported that it had 23,679 practicing physicians, of which 56% were in private practice. As of 1999, there were an estimated 3.4 physicians and 18.1 hospital beds per 1,000 people. The ratio of doctors per population varies by region, with the highest proportions in Basle and Geneva and the lowest in Appenzell. As of 1999 total health care expenditure was estimated at 10.4% of GDP.

As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 9.8 and 8.8 per 1,000 people. In the mid-1990s about 71% of married women (ages 15 to 49) were using contraception. The fertility rate was 1.5 children per woman surviving her childbearing years in 2000. The infant mortality rate, which had been 70.3 per 1,000 live births in 1924, was 4 in 2000. As of 1999, the vaccination rates for DPT and measles were, respectively, 94% and 81%. In 2000, life expectancy was averaged at 80 years.

There were about nine cases of tuberculosis per 100,000 people reported in 1999. Cardiovascular disease-related deaths numbered nearly 30,000 in the mid-1990s. Tobacco consumption has dramatically decreased from 3.1 kg (6.8 lbs) per year per adult in 1984–86 to 2.4 kg (5.3 lbs) in 1995. In 1996, voters in Zurich approved a government plan to supply heroin addicts with free access to their drug.

As of 1999, the number of people living with HIV/AIDS was estimated at 17,000 and deaths from AIDS that year were estimated at 150. HIV prevalence was 0.5 per 100 adults.

#### 42 HOUSING

Although housing standards are comparatively high, there are shortages in certain areas. In the mid-1990s, less than 40,000 new dwellings per year were constructed in communities of 2,000 or more inhabitants, down from 44,228 in 1985. The total housing stock in 2001 was 3,604,340 dwellings.

#### 43 EDUCATION

Primary education is free, and adult illiteracy is virtually nonexistent. Education at all levels is first and foremost the responsibility of the cantons. Thus, Switzerland has 26 different systems based on differing education laws and varied cultural and linguistic needs. The cantons decide on the types of schools, length of study, teaching materials, and teachers’ salaries. Education is compulsory in most cantons for nine years, and in a few for eight. An optional 10th year has been introduced in several cantons. Church schools in some cantons are tax supported. After primary school, students complete the compulsory portion of their education in various types of secondary Grade I schools, which emphasize vocational or academic subjects to varying degrees. Secondary Grade II schools, which are not compulsory, include trade and vocational preparatory schools and gymnasiums, which prepare students for the university and lead to the matura, or higher school-leaving certificate. As of 1999, public expenditure on education was estimated at 5.5% of GDP.

Switzerland has eight cantonal universities, including four in French-speaking areas and four in German-speaking ones. The universities’ expenditures are largely financed by the cantons, with a 53% contribution from the Confederation. Approximately one-third of all higher-level educational funding goes to research and development. The largest universities are those of Zürich, Geneva, and Basel; others include those of Lausanne, Bern, Fribourg, and Neuchâtel. The Federal Institute of Technology in Zürich, the Economics College at St. Gallen, and the Federal Institute of Technology in Lausanne are also important.

Switzerland has a large number of private schools attracting primarily foreign students. These schools, most of them located in the French-speaking cantons, are known for their high-quality education, of either the academic or “finishing school” variety.

In 1996, 477,643 students were enrolled in primary schools. In the same year, 559,924 students were enrolled in secondary schools, and 148,024 students attended tertiary institutions. The pupil-teacher ratio at the primary level was 14 to 1 in 1999. In the same year, 99% of primary-school-age children were enrolled in school, while 88% of those eligible attended secondary school.

#### 44 LIBRARIES AND MUSEUMS

The library of Basel University (3.1 million volumes) and the Swiss National Library in Bern (3.1 million volumes) are the largest in Switzerland. The University of Geneva has 1.8 million volumes; the University of Lausanne has about 1.7 million; and the University of Fribourg has two million. Switzerland has an extensive public library system with 2,344 service points in 1997 holding 28 million volumes in total. The federal archives, the libraries of the UN European Center and the International Labor Office in Geneva are among the most important special libraries.

The National Museum, a federal institution in Zürich, houses historic objects; other historical museums are located in Basel, Bern, and Geneva. Basel houses both the Museum of Ancient Art and the Basel Museum of Fine Arts, which has a fine collection of 15th- and 16th-century German masterworks, paintings by Dutch artists of the 17th and 18th centuries, and a survey from Corot to Picasso. The Museum of Fine Arts in Bern contains paintings by old masters and impressionists (Klee Foundation). The Zürich Art Museum houses modern Swiss paintings, as well as works by Dutch and Flemish masters of the 17th century. Geneva houses the Museum of the Voltaire Institute, the Museum of the Institute of Henri Dunant, founder of the International Red Cross, the Jean-Jacques Rousseau Museum, and the Museum of Modern and Contemporary Art, which opened in 1994. There are arts and crafts museums in most of the larger cities, and Neuchâtel has an ethnographic museum. Many fine examples of Romanesque, Gothic, and Baroque architecture are found in Switzerland.

#### 45 MEDIA

The postal system and the telephone, telegraph, radio, and television systems are government owned and operated. The telephone system is completely automatic, utilizing 4.82 million telephone lines in 1998. There were an additional 1.9 million mobile cellular phones in use in 1999. International communications, air navigation services, and the new electronic media, including data transmission and electronic mail, are the province of Radio Suisse, a public corporation of which the Confederation holds 95%. Broadcasting is controlled by the Swiss Broadcasting Corp. (SBC), an autonomous corporation under federal supervision. In 1995, there were six SBC radio channels and three television channels. A number of independent local radio stations have been operating since 1983. Radio programs are broadcast in German, French, Italian, and Romansh. As of 1999, Switzerland had seven AM and 50 FM radio stations and 108 television stations. In 2000, there were about 1,002 radios and 548 television sets for every 1,000 people. The same year, there were about 500 personal computers in use for every 1,000 people with 44 Internet service providers serving about 3.4 million people by 2001.

Switzerland has one of the world's highest numbers of newspapers. A few papers, such as the *Neue Zürcher Zeitung* and the *Journal de Genève*, are widely read even beyond the borders of Switzerland and have excellent international coverage. The Agence Télégraphique Suisse (Schweizerische Depeschentagentur), co-owned by some 40 newspaper publishers, is Switzerland's most important national news agency.

Among the largest dailies, as of 2002, were the following papers:

	CITY	CIRCULATION
<i>Blick</i>	Zurich	335,140
<i>Tages-Anzeiger</i>	Zurich	283,140
<i>Tagblatt derr Stadt Zurich</i>	Zurich	197,000
<i>Neue Zürcher Zeitung</i>	Zurich	158,170
<i>Neue Luzerner Zeitung</i>	Lucerne	130,315
<i>Aargauer</i>	Baden	120,000
<i>Basler Zeitung</i>	Basel	114,600

The *Schweizer Illustrierte* (circulation 195,894) is the most popular illustrated weekly, and the *Nebelspalter* (38,630) is the best-known satirical periodical.

The constitution provides for freedom of speech and a free press, and the government is said to uphold these freedoms in practice.

#### 46 ORGANIZATIONS

Both agricultural and consumer cooperatives are numerous. The Swiss Office for Commercial Expansion is an important foreign trade promotion organization. The Swiss Federation of Commerce and Industry also promotes commerce, trade and industry. The Swiss Confederation of Trade Unions serves the interests of workers/employees. The International Labor Organization has a base office in Geneva. There are chambers of commerce in all the major cities. Trade unions and professional associations exist for most occupations.

Geneva serves as home to a variety of international organizations including the Red Cross, the International Olympic Committee, the World Council of Churches, The World Health Organization, and the World Scout Foundation. Several United Nation's committee offices are based here as well, the UN Economic Commission for Europe, UN Environment Programme, UN High Commission for Refugees, the UN Institute for Training and Research, and the UN Research Institute for Social Development. Other international organizations with national chapters include Amnesty International, Defence for Children International, and Greenpeace.

There are numerous cultural and educational organizations. A few with national interest include the Swiss Academy of Humanities and Social Sciences, the Swiss Academy of Medical Sciences, and the Swiss Academy of Sciences. The European Center for Culture is a multinational organization promoting understanding and cooperation between cultures. There are a large number of sports associations nationwide, including several international organizations such as the International Baseball Federation, the International Basketball Federation, and the International Gymnastic Federation.

Several human rights, social justice, and social action organizations exist, including the Association of International Consultants on Human Rights, the Berne Declaration, Green Cross, The National Council of Women of Switzerland, and the Women's International League for Peace and Freedom. The International Alliance Women and the Women's World Summit Foundation both focus on health and equal rights for women. Soroptimist International of Europe is a multinational organization of business-women working toward the causes of peace, justice, health, and equal rights.

#### 47 TOURISM, TRAVEL, AND RECREATION

Switzerland has long been one of the most famous tourist areas in the world, and Swiss hospitality and the Swiss hotel industry are justly renowned. Scenic attractions are manifold, and in the Swiss Alps and on the shores of the Swiss lakes there are features of interest for the skier, the swimmer, the hiker, the mountain climber, and the high alpinist. There are approximately 50,000 km (31,000 mi) of marked footpaths and 500 ski lifts. The hotels are among the best in the world; Switzerland pioneered in modern hotel management and in specialized training for hotel personnel. In 2000, Switzerland had 141,422 hotel rooms with 261,387 beds and a 42% occupancy rate. Central Switzerland and the Geneva region attract the largest number of foreign tourists. Passports or national identity cards are required, but citizens of the Americas or of Western European countries may enter without a visa.

In 2000, international tourist arrivals totaled 11 million and receipts reached \$7.5 billion.

In 2002, the US government estimated the cost of staying in Switzerland as between \$188 and \$322 per day.

## 48 FAMOUS SWISS

World-famous Swiss scientists include the physician and alchemist Philippus Aureolus Paracelsus (Theophrastus Bombastus von Hohenheim, 1493?–1541); the outstanding mathematicians Johann Bernoulli (1667–1748) and Leonhard Euler (1707–83); the geologist Louis Agassiz (Jean Louis Rodolphe Agassiz, 1807–73), who was active in the US; the physiologist, pathologist, and surgeon Emil Theodor Kocher (1841–1917), who received the Nobel Prize for medicine in 1909; Charles Édouard Guillaume (1861–1938) and the German-born Albert Einstein (1879–1955, a naturalized Swiss citizen), Nobel Prize winners in physics in 1920 and 1921, respectively; and Paul Karrer (b. Russia, 1889–1971), authority on vitamins, who shared the 1937 Nobel Prize in chemistry. Other Nobel Prize winners in the sciences include Alfred Werner (1866–1919; chemistry, 1913); Yugoslav-born Leopold Ruzicka (1887–1976; chemistry, 1939); Yugoslav-born Vladimir Prelog (1906–1998; chemistry, 1975); Austrian-born Wolfgang Pauli (1900–1958; physics, 1945); Paul Hermann Müller (1899–1965), Walter Rudolf Hess (1881–1973), and Polish-born Tadeus Reichstein (1897–1996), Nobel laureates for medicine in 1948, 1949, and 1950, respectively; Werner Arber (b. 1929; medicine, 1978); Heinrich Rohrer (b. 1933; physics, 1986); and K. Alex Müller (b. 1927) and German-born J. Georg Bednorz (b. 1950), for physics in 1987.

Jean-Jacques Rousseau (1712–78), a Geneva-born philosopher, musician, novelist, and diarist in France, was a great figure of the 18th century whose writings exerted a profound influence on education and political thought. Swiss-born Mme. Germaine de Staël (Anne Louise Germaine Necker, 1766–1817) was acclaimed the world over as defender of liberty against Napoleon. Other noted Swiss writers include Albrecht von Haller (1708–77), also an anatomist and physiologist; the novelists and short-story writers Johann Heinrich David Zschokke (1771–1848) and Jeremias Gotthelf (Albert Bitzios, 1797–1854), also a clergyman and poet; and the poets and novelists Gottfried Keller (1819–90), Conrad Ferdinand Meyer (1825–98), and Carl Spitteler (1845–1924), the last of whom won the Nobel Prize for literature in 1919. The diaries of the philosopher, poet, and essayist Henri-Frédéric Amiel (1821–81) are famous as the stirring confessions of a sensitive man's aspirations and failures. Charles Ferdinand Ramuz (1878–1947) is often regarded as the most powerful Swiss writer since Rousseau. The German-born novelist and poet Hermann Hesse (1877–1962) was awarded the Nobel Prize for literature in 1946. Other recent and contemporary Swiss writers include Robert Walser (1878–1956), a highly individualistic author, and the novelists and playwrights Max Rudolf Frisch (1911–91) and Friedrich Dürrenmatt (1921–90), whose psychological dramas have been performed throughout Europe and the US.

Ludwig Senfl (1490–1543) was an outstanding Renaissance composer. The *Dodecachordon* (1547) of Henricus Glareanus (Heinrich Loris, 1488–1563) was one of the most important music treatises of the Renaissance period. Swiss-born composers of more recent times include Ernest Bloch (1880–1959), Othmar Schoeck (1886–1957), Arthur Honegger (1892–1955), Frank Martin (1890–1974), Ernst Lévy (1895–1981), Conrad Beck (1901–89), and Paul Burkhard (1911–77). Ernest Ansermet (1883–1969) was a noted conductor. Renowned Swiss painters

include Konrad Witz (1400–1447), Henry Fuseli (Johann Heinrich Füssli, 1741–1825), Arnold Böcklin (1827–1901), Ferdinand Hodler (1853–1918), and Paul Klee (1879–1940). In sculpture and painting, artist Alberto Giacometti (1901–66) won world acclaim for his hauntingly elongated figures. Le Corbusier (Charles Édouard Jeanneret, 1887–1965) was a leading 20th-century architect.

Swiss religious leaders include Ulrich Zwingli (1484–1531), French-born John Calvin (Jean Chauvin, 1509–64), and Karl Barth (1886–1968). Other famous Swiss are Johann Heinrich Pestalozzi (1746–1827), an educational reformer who introduced new teaching methods; Ferdinand de Saussure (1857–1913), the founder of modern linguistics; Auguste Henri Forel (1848–1931), psychologist and entomologist; the noted art historians Jakob Burckhardt (1818–97) and Heinrich Wölfflin (1864–1945); the psychiatrists Eugen Bleuler (1857–1939), Carl Gustav Jung (1875–1961), and Hermann Rorschach (1884–1922); Jean Piaget (1896–1980), authority on child psychology; and the philosopher Karl Jaspers (1883–1969). Swiss winners of the Nobel Prize for peace are Henri Dunant (1828–1910) in 1901, founder of the Red Cross, and Elie Ducommun (1833–1906) and Charles Albert Gobat (1843–1914), both in 1902.

## 49 DEPENDENCIES

Switzerland has no territories or colonies.

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# UKRAINE

*Ukraina*

**CAPITAL:** Kiev (Kyiv)

**FLAG:** Equal horizontal bands of azure blue (top) and yellow.

**ANTHEM:** *The National Anthem of Ukraine.*

**MONETARY UNIT:** The official currency, introduced in early 1993, is the hryvnia (HRN), which consists of 100 shahy. \$1 = HRN5.33; as of January 2003.

**WEIGHTS AND MEASURES:** The metric system is used.

**HOLIDAYS:** New Year's Day, 1–2 January; Christmas, 7 January; Women's Day, 8 March; Spring and Labor Day, 1–2 May; Victory Day, 9 May; Ukrainian Independence Day, 24 August.

**TIME:** 2 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Ukraine, the second largest country in Europe, is located in eastern Europe, bordering the Black Sea, between Poland and Russia. Comparatively, Ukraine is slightly smaller than the state of Texas with a total area of 603,700 sq km (233,090 sq mi). Ukraine shares boundaries with Belarus on the N, Russia on the E, the Black Sea on the S, Romania, Moldova, Hungary, and Slovakia on the W, and Poland on the NW. Ukraine's location is one of strategic importance at the crossroads between Europe and Asia. Its land boundary totals 4,663 km (2,897 mi) and its coastline is 2,782 (1,729 mi). Ukraine's capital city, Kiev, is located in the north central part of the country.

## <sup>2</sup>TOPOGRAPHY

The topography of Ukraine consists mainly of fertile plains (steppes) and plateaus. Mountains (Carpathians) are found only in the west and in the Crimean Peninsula in the extreme south. About 57% percent of the land in Ukraine is arable with approximately 4% under irrigation. The most important river in Ukraine is the Dnipro (Dneiper), the third longest river in Europe. It serves as a major source of hydro-electric power. Other major rivers include the Danube, Western Buh, the Tisza, the Pripyat, and the Desna.

## <sup>3</sup>CLIMATE

The climate is subtropical on the Crimean Peninsula. Precipitation is disproportionately distributed, highest in the west and north, least in the east and southeast. Winters vary from cool along the Black Sea to cold farther inland. Summers are warm across the greater part of the country, except for the south where it becomes hot.

The rest of the country's climate is temperate. The mean temperature in July is about 10°C (66°F). In January, however, the mean temperature drops to -6°C (21°F). Average rainfall is 50 cm (20 in) a year, with variations in different regions.

## <sup>4</sup>FLORA AND FAUNA

The land's soil, chernozyom (black soil), is very fertile. When the Ukraine was part of the former Soviet Union it was called the

country's "bread basket." European bison, fox, and rabbits can be found living on the vast steppes of the country.

## <sup>5</sup>ENVIRONMENT

Ukraine's environmental problems include the nuclear contamination which resulted from the 1986 Chernobyl accident. One-tenth of Ukraine's land area was affected by the radiation. According to UN reports, approximately one million people were exposed to unsafe levels of radiation through the consumption of food. Approximately 3.5 million ha (8.6 million ac) of agricultural land and 1.5 million ha (3.7 million ac) of forest were also contaminated.

Pollution from other sources also poses a threat to the environment. Ukraine releases polluted water, heavy metal, organic compounds, and oil-related pollutants into the Black Sea. The water supply in some areas of the country contains toxic industrial chemicals up to 10 times the concentration considered to be within safety limits.

Air pollution is also a significant environmental problem in the Ukraine. In 1992, Ukraine had the world's seventh-highest level of industrial carbon dioxide emissions, which totaled 611.3 million metric tons, a per capita level of 11.72. In 1996, the total had dropped significantly to 397 million metric tons. The pollution of the nation's water has resulted in large-scale elimination of the fish population, particularly in the Sea of Azov.

As of 2001, only 1.6% of Ukraine's total land area is protected, including 22 Wetlands of International Importance. Fifteen mammal species, 10 bird species, and 20 plant species are threatened, including the European bison, the Russian desman, and the Dalmatian pelican.

## <sup>6</sup>POPULATION

The population of Ukraine in 2003 was estimated by the United Nations at 48,523,000, which placed it as number 24 in population among the 193 nations of the world. In that year approximately 14% of the population was over 65 years of age, with another 17% of the population under 15 years of age. There were 87 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for

2000–2005 is -0.78%, with the projected population for the year 2015 at 44,368,000. The population density in 2002 was 80 per sq km (207 per sq mi). The Dnieper Lowlands and the Donets Basin are the most densely populated regions.

It was estimated by the Population Reference Bureau that 68% of the population lived in urban areas in 2001. The capital city, Kiev, had a population of 2,663,000 in that year. Other big cities were Kharkov, 1,701,000; Dnepropetrovsk, 1,244,000; Donetsk, 1,158,000; Odesa, 1,123,000; Zaporozhye, 949,000; and Lvov, 876,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.1%.

## 7 MIGRATION

Since the breakup of the former Soviet Union, tens of thousands of Ukrainians have returned to the Ukraine. Between 1989 and 1995, 15,000 returned from Azerbaijan, and 39,000 returned from Kyrgyzstan. Between 1991 and 1995, 15,000 returned from Belarus; 82,000 returned from Kazakhstan; and 30,000 returned from Tajikistan. There were still 150,000 ecological migrants internally displaced from the 1986 Chernobyl accident. As of February 1996, 250,000 Tatars had returned from Central Asia, mostly from Uzbekistan. These Tatars belong to the 500,000 Tatars that were forcibly deported from the Crimean peninsula under the Stalin regime. The signature of an agreement between Ukraine and Uzbekistan in 1998 on the simultaneous release from Uzbek citizenship and acquisition of Ukrainian citizenship enabled more than 38,000 Crimean Tatars to obtain Ukrainian citizenship. Many of the rest of the Crimean Tatars in Central Asia wish to return to the Crimea.

Due to a series of amendments to the Law of Citizenship and a naturalization campaign, all formerly deported stateless persons residing in Ukraine had acquired Ukrainian citizenship as of 1999. The net migration rate was -2.0 migrants per 1,000 population in 2000. The total number of migrants living in the Ukraine that year was 6,947,000. The government views the immigration level as too low, and the emigration level as too high.

## 8 ETHNIC GROUPS

According to the latest estimates, 73% of the total population is Ukrainian. Russians form 22%, mainly in eastern Ukraine. The population of Crimea is about 70% Russian. Jews account for 1% of the populace, and various other ethnic groups comprise the remaining 4%.

## 9 LANGUAGES

Like Russian, Ukrainian is an eastern Slavic language. It has several distinctive vowel and consonant sounds, however. It is written in the Cyrillic alphabet but has three extra letters. Ukrainian began to emerge as a separate language from Russian in the late 12th century. In addition to Ukrainian and Russian, Romanian, Polish, and Hungarian are also spoken.

## 10 RELIGIONS

Ukraine was Christianized by St. Volodymyr in 988. Under Soviet rule, churches and religion were subject to suppression and political manipulation, a situation that ended with the declaration of independence in 1991. Based on a 2001 survey by the SOCIS research center, over 40% of the population claim to be atheists. Of those that are religiously active, most (about 90%) are members of the Orthodox Church, which is divided into three denominations: the Ukrainian Orthodox Church (Moscow Patriarchate), the Ukrainian Orthodox Church (Kiev Patriarchate), and the Ukrainian Autocephalous Orthodox Church. There have been considerable disputes between members of these groups. In 1997 leaders of major religious denominations and churches signed a memorandum on the nonviolent resolution of religious conflicts drafted by the government. Nevertheless,

problems remain. In April 1999 one dispute did turn violent in the city of Mariupol between followers of the Moscow Patriarchate and supporters of the Kiev Patriarchate; otherwise, the disputes have remained peaceful.

About 10% of the religiously active population are members of the Ukrainian Greek Catholic Church. Roman Catholics claim about one million members and are largely concentrated in the formerly Austro-Hungarian and Polish western territories. The country's Jewish population numbers between 250,000 and 325,000 people (though some Jewish leaders claim the number is closer to 500,000). Nonnative Christian denominations, including Baptists, Pentecostals, Jehovah's Witnesses, and members of the Church of Jesus Christ of Latter-Day Saints, represent another 2% of the country's populace. The head of the Spiritual Directorate of the Muslims of Ukraine estimates that there are as many as two million members of the nation's Muslim community. Islam is practiced mainly by the Tatar population of the autonomous republic of the Crimea.

## 11 TRANSPORTATION

As of 2002, there were 22,510 km (13,988 mi) of railway, all 1.5 m gauge. Highways in 2002 totaled 273,700 km (170,077 mi), of which 236,400 km (146,899 mi) are hard-surfaced, including 1,770 km (1,100 mi) of expressways.

The main marine ports are Berdyans'k, Illichiv'sk, Kerch, Kherson, Mariupol', Mykolayiv, Odesa, and Sevastopol'. The merchant marine fleet had 138 ships (1,000 GRT or over) for a total capacity of 669,303 GRT (707,857 DWT) in 2002. There are 4,499 km (2,796 mi) of inland waterways. The Dnipro River is the primary inland waterway, but the Danube, western Pivd Buh, Pryp'yat', and Desna are also used for import-export traffic.

Ukraine had 718 airports in 2001, of which 114 had paved runways. The largest airports are in Kiev, Kharkiv, Donetsk, Odesa, and Simferopol'. In 2001, 995,500 passengers were carried on scheduled domestic and international airline flights.

## 12 HISTORY

Ukrainians, Russians, and Belarussians belong to the eastern branch of the Slavic peoples, all of which trace their origins to medieval Kievan Rus. Kievan Rus was established in the 9th century AD. St. Volodymyr the Great, one of the most celebrated rulers of Kievan Rus, adopted Christianity as the national faith in 988. Internal strife in the 12th century and the Mongol invasion in the 13th led to the ultimate destruction of Kievan Rus as a major power. Halych-Volhynia in Western Ukraine, however, became the new political center until it fell to Polish-Lithuanian rule in the 14th century. During the following centuries Ukraine found itself the object of power struggles among its more powerful neighbors.

In a protracted struggle against Poland, Ukrainian Cossacks were able to establish an independent state in the 16th and 17th centuries. To safeguard Ukrainian independence from the Poles, Ukraine concluded the Treaty of Pereyaslav in 1654 with Moscow. The nature of this agreement has generated much historical controversy: Russian historians claim that, as part of the agreement, Ukraine accepted Moscow's rule, while Ukrainians claim that Ukraine was to retain its autonomy. The ensuing war between Russia and Poland resulted in the partition of Ukraine. Most of the rest of Ukraine's territory was incorporated into the Russian Empire with the partition of Poland in 1795. Small parts of Ukrainian territory to the west were absorbed by the Hapsburg Empire.

A Ukrainian national movement arose in the 19th century. Later, the collapse of the Tsarist regime and the chaos of the Russian revolution in 1917 allowed Ukraine to assert its independence. In April 1917, the National Ukrainian Assembly met in Kiev and in November proclaimed the creation of the Ukrainian People's Republic. When the Bolsheviks formed a rival





LOCATION: 49°0' N; 32°0' E. BOUNDARY LENGTHS: Total boundary lengths, 4,558 kilometers (2,834 miles); Belarus, 891 kilometers (554 miles); Hungary, 103 kilometers (64 miles); Moldova, 939 kilometers (584 miles); Poland, 428 kilometers (266 miles); Romania (southeast), 169 kilometers (105 miles); Romania (west), 362 kilometers (225 miles); Russia 1,576 kilometers (980 miles); Slovakia, 90 kilometers (56 miles).

Ukrainian Communist government, the National Assembly proclaimed the independence for Ukraine on 22 January 1918.

On 1 November 1918, an independent Republic of Western Ukraine was declared after the disintegration of the Austro-Hungarian Empire. On 22 January 1919, the Ukrainian People's Republic and the Republic of Western Ukraine united and established an independent Ukrainian state, recognized by over 40 other nations.

The new government, however, could not maintain its authority in the face of civil strife and the threat of the approaching Bolshevik, pro-Tsarist, and Polish forces. By 1920, eastern Ukraine fell to the Bolsheviks and became the Ukrainian Soviet Socialist Republic while Poland occupied most of western Ukraine. Small areas of the west went to Romania, Hungary, and Czechoslovakia.

Early Soviet policy allowed for cultural autonomy and local administration by Ukrainian Communists. But Stalin changed this liberal policy in the 1930s when he initiated strict Russification and persecution of Ukrainian nationalists. This policy culminated in the Soviet-engineered famine of 1932–33 that resulted in the death of 7 to 10 million Ukrainians.

The 1939 Nazi-Soviet pact assigned Poland's Ukrainian territory to the Soviet sphere of influence. When Germany invaded the Soviet Union in 1941, Ukrainian nationalists in L'viv proclaimed the restoration of the Ukrainian state. The Germans arrested these nationalists and turned Ukraine into a German colony. When it became clear that the Nazis wanted to enslave them and not liberate them, a resistance movement led by nationalists fought both the Soviet and German armies. During World War II, Ukraine lost six million people through death or deportation and a total of 18,000 villages were destroyed.

The Ukrainian resistance movement continued to fight in Soviet Ukraine (the western Ukraine which had been part of Poland had been incorporated into the Ukrainian S.S.R.). It was not until the 1950s that they were completely defeated by the better-equipped Soviet Red Army.

In March 1990, semi-free elections for parliament were held. The Communist-dominated parliament declared Ukraine a sovereign state on 16 July 1990. On 24 August 1991, following the failed coup in Moscow, the parliament proclaimed the independence of Ukraine and declared that only the constitution and laws of Ukraine were valid on its territory. On 1 December

1991 the citizens of Ukraine confirmed this proclamation with a 90.3% vote in favor of independence. At the time of this referendum, Leonid Kravchuk was elected as the first president.

Ukraine joined Russia and Belarus in creating the Commonwealth of Independent States (CIS) in December 1991. This agreement was meant to facilitate coordination of policy in various fields. But despite their efforts, Ukrainian-Russian differences arose in several areas, including the command and control of nuclear weapons, the formation of a unified military command, and the character and pace of economic reform.

In light of the 1986 Chernobyl nuclear power plant accident, Ukraine declared its intention to become a nuclear-free state. However, this process progressed much more slowly than expected. The lack of fuel resources and disagreements with Russia over pricing had induced the government to keep the Chernobyl plant running. The START I agreement received the Ukrainian parliament's conditional ratification in November 1993 and unconditional ratification in February 1994, but the transfer of nuclear weapons to Russia did not occur as smoothly as planned. On 6 May 1992 it was announced that all Ukrainian tactical nuclear weapons had been shipped to Russia for dismantling. However, Ukraine cited Russia's failure to dismantle these weapons, inadequate compensation, and security concerns as the reasons for not turning over its entire strategic arsenal.

The CIS countries agreed to a unified nuclear command, but Ukraine declared its intent to create its own national conventional military and opposed any efforts to create a unified CIS conventional force. President Kravchuk declared all conventional forces on Ukrainian territory to be the property of Ukraine. This has given rise to disputes and disagreements about the Black Sea fleet, to which Russia has also laid claim.

Since its independence, Ukraine has experienced unrest in some of the predominantly Russian areas in the east and southeast. Crimea is the most notable example, declaring independence on 6 May 1992. At the same time the Russian parliament approved a resolution that declared the 1954 Soviet grant of the Crimea to Ukraine unconstitutional and void. This resolution, however, was rejected by Russian president Boris Yeltsin. Demands for secession in Crimea have continued to complicate Ukrainian-Russian relations.

Ukraine adopted a new constitution in June 1996 establishing a presidency (elected for a five-year term) and a one-chamber parliament called the Supreme Council (elected for a four-year term). Under transitional provisions, President Leonid Kuchma, elected over incumbent Leonid Kravchuk in 1994, was to serve until elections in 1999. The Supreme Council adopted a new civil code in June 1997. In the same year, Ukraine signed a 10-year friendship treaty with Russia and an agreement with Western nations on shutting down the Chernobyl nuclear plant by 2005. It was shut down in 2000. Public discontent with the slow pace of economic reforms was evident in the strong showing by the Communist Party in the 1998 legislative elections, in which it won 25% of the vote (116 of 450 seats). However, support for the party did not translate into support for union with Russia, proposed by Petro Symonenko, the party's candidate in the 1999 presidential elections. Leonid Kuchma was reelected in a November 1999 runoff election with 56% of the vote and nominated central bank chairman Viktor Yushchenko to be prime minister. Soon after taking office, Yushchenko reached a restructuring agreement with foreign bond holders to avoid default on the nation's \$2.6 billion foreign debt. As the new century began, Ukraine's much-needed economic reforms remained stalled by the long-standing problems of corruption and political stalemate between reformists and their parliamentary opponents.

In November 2000, the body of Ukrainian journalist Georgiy Gongadze was found decapitated: opposition demonstrators alleged Kuchma was involved in the murder of the journalist who

was critical of the administration, and there were calls for Kuchma's impeachment. Kuchma denied the allegations, but in February 2001, the EU called for an inquiry into the journalist's murder. In September 2002, an ad hoc commission set up by parliament to investigate Gongadze's murder recommended that criminal charges be brought against the president and other top officials, based on tape recordings of a meeting at which Kuchma allegedly asked security officials to "take care" of the journalist. Anti-Kuchma protests were held throughout the country to call for the president's resignation. All six national television stations were off the air on the morning of the 16 September demonstrations, purportedly for "maintenance." Many protesters were beaten and arrested. In October, the Kiev Court of Appeals opened a criminal case against Kuchma, based upon the allegations of his involvement in the murder.

In parliamentary elections held on 30 March 2002, Ukrainians voted for many opposition parties, although parties opposed to Kuchma alleged widespread fraud. In April, Yushchenko's government was dismissed following a no-confidence vote in parliament. Although Yushchenko is respected in the West for fighting corruption and furthering economic reforms, he is unpopular with many Ukrainian businessmen, who are seen to be corrupt. Presidential elections are scheduled for 2004, and Kuchma is constitutionally barred from running for a third term. In 2002, he announced plans to amend the constitution and weaken his executive powers. This was seen as a move to transfer power to parliament, in the event that a reformer such as Yushchenko would be elected president. Kuchma's plans also included splitting parliament into two chambers. In March 2003, Yushchenko stated he feared the new amendments would postpone presidential elections for two years, and extend Kuchma's rule until 2006. Tens of thousands of protesters nationwide took to the streets in March, calling once again on Kuchma to resign for abuse of office, arms dealing, vote-rigging, corruption, the involvement in Gongadze's murder, and for impoverishing the country.

The last Soviet-era ICBM nuclear missile silo in Ukraine was destroyed in October 2001, completing Ukraine's obligations under the START I accord. That month, a Ukrainian air force pilot accidentally fired a missile at and shot down a Russian airliner over the Black Sea, killing all 78 on board, including 23 children. Defense Minister Olexander Kuzmuk resigned in acknowledgment of the military's responsibility for the downing. In July 2002, 83 people were killed when a military aircraft crashed into a crowd of spectators at an air show. Then-Defense Minister Vladimir Shkidchenko resigned, and head of the air force Viktor Strelnikov and head of the general staff of the Ukrainian armed forces, Pyotr Shulyak, were also replaced.

### 13 GOVERNMENT

Ukraine is governed by a constitution adopted in June 1996, which allows for an elected parliament and president.

The Ukrainian parliament consists of a single chamber with 450 seats called the Rada (Supreme Council); members serve four-year terms. The prime minister and cabinet are nominated by the president and confirmed by the Supreme Council. Ukraine's second post-independence parliamentary elections were held in March 1998, and the third in March 2002. Although many parties participate in the elections, many candidates run as independents as well.

Ukraine's first post-independence presidential elections were held in two rounds on 26 June and 10 July 1994. In this election, the incumbent Leonid Kravchuk was defeated by his former prime minister, Leonid Kuchma, who was reelected in November 1999. Presidential elections were due in 2004. The president is elected by popular vote for a five-year term.

There is also a National Security and Defense Council (NSDC), originally created in 1992 but strengthened under Kuchma. The

NSDC develops national security policy on domestic and international matters, and advises the president. A Presidential Administration and a Council of Regions also advise the president.

## 14 POLITICAL PARTIES

There are some 120 political parties active in Ukraine. They fall roughly into four different categories: radical nationalist, democratic nationalist, liberal-centrist, and Communist-socialist.

The radical nationalist parties are fearful of Russia and advocate a strong presidency. Their commitment to democracy—particularly if regions of Ukraine seek to secede—is not firm. The democratic nationalist parties are also fearful of Russia, but also appear strongly committed to democracy, individual rights, and the protection of private property. The influential Rukh Party (Ukrainian Popular Movement), which won 43 seats in the 1998 elections, belongs to this group. The liberal-centrist parties are particularly concerned with promoting free market economic reform. They are also committed to democracy and individual rights. The communist-socialist parties oppose privatization and seek continued state control of the economy. They generally favor close relations with Russia. The most important party in this group, the Communist Party of Ukraine, won 116 seats in 1998.

In the March 2002 parliamentary elections, many parties grouped together into voting blocs. Winning the most seats in the Rada was the “Our Ukraine” coalition, led by Viktor Yushchenko, which took 23.6% of the vote and 112 of 450 seats. The coalition was registered in January 2002, and then included the Ukrainian People’s Rukh Party (registered in 2003 as the Ukrainian People’s Party), the People’s Rukh of Ukraine, the Congress of Ukrainian Nationalists, the Reforms and Order Party, Solidarity, the Liberal Party, the Youth Party of Ukraine, the Christian People’s Union, the Go Forward, Ukraine! Party, and the Republican Christian Party. In March 2003, Yushchenko announced a “new political force” would be created, that would form the basis for a European-style political party. Yushchenko is expected to run for the presidency in the 2004 elections.

Also gaining seats in parliament in the 2002 elections were: the “For a United Ukraine” bloc, 101; the Communist Party, 67; the United Social-Democratic Party of Ukraine, 24; the Socialist Party of Ukraine, 23; the Juliya Tymoshenko bloc, 21; the Democratic Party of Ukraine/Democratic Union liberal bloc, 4; the “Unity” bloc, 3; and independents and others held 95 seats.

## 15 LOCAL GOVERNMENT

Ukraine is divided into 24 administrative regions (oblasts) plus the autonomous Republic of Crimea. In addition, the cities of Kiev, the capital of Ukraine, and Sevastopol, capital of Crimea, enjoy oblast status. The oblast is divided into districts, each of which has a representative in the Rada (Supreme Council).

A strong secessionist movement has risen up in Crimea. In a nonbinding referendum held in 1994, over 78% of the 1.3 million people who voted supported greater autonomy from Ukraine. In 1995 Ukraine’s parliament and President Leonid Kuchma moved to contain secessionist elements in the region. Kuchma temporarily took direct control over the area and afterward decreed that he must approve all candidates for premier of the region. The Crimea adopted a new constitution in 1999 providing for additional budgetary autonomy from the rest of Ukraine.

## 16 JUDICIAL SYSTEM

The court system, until 2001, remained similar to that which existed under the former Soviet regime. In July 2001, a series of laws was passed designed to bring existing legislation regarding the judiciary and the administration of justice more in line with the requirements for an independent judiciary. The three levels of courts are rayon (also known as regional or people’s courts),

oblast (provincial) courts, and the Supreme Court. All three levels serve as courts of first instance, the choice of level varying with the severity of the crime. A case heard in first instance at the rayon level can be appealed through the next two higher stages. A case heard in first instance in the Supreme Court is not subject to appeal or review. A 1992 law added a Constitutional Court to the existing system. The Constitutional Court consists of 18 members appointed for 9-year terms. It is the final interpreter of legislation and the constitution, and it determines the constitutionality of legislation, presidential edicts, cabinet acts, and acts of the Crimean autonomous republic.

The Rada (Supreme Council) selects judges on recommendation from the Ministry of Justice based partly upon government test results. Oblast and Supreme Court judges must have five years of experience in order to be appointed and may not be members of political parties.

A new constitution, adopted in 1996, provides that the judiciary is funded separately from the Ministry of Justice to ensure an independent judiciary. Because the courts are funded by the Ministry of Justice, however, they have been subject to executive influence, and have suffered from corruption and inefficiency.

## 17 ARMED FORCES

Ukraine was able to quickly organize an impressive national army, in part because it had always been an important contributor to the Soviet armed forces. In 2002 Ukrainian armed forces numbered 302,300 active personnel with some 1,000,000 reserves. Ground forces numbered 150,700 and was organized into three commands and more than 30 specialized brigades and regiments of artillery, special forces, air defense, rocket and missile, and attack helicopter units. It was equipped with 3,905 main battle tanks and over 3,000 armored infantry fighting vehicles. The Air Force and Air Defense Force, with 49,100 personnel, operated 499 combat air craft. The navy numbered 13,500 and was equipped with one submarine, three principal surface combatants and nine patrol and coastal combatants. The naval infantry numbered 3,000.

Of greatest international concern has been the fate of the ICBMs and strategic bombers on Ukrainian soil, which are supposed to return to Russia for dismantling. As of 2000, the number of ICBMs had been reduced from 174 to 44, although the number of bombers had remained nearly steady at 44.

Paramilitary forces included 44,000 internal security troops, 45,000 border guards, coast guards numbering 14,000, and some 9,500 civil defense troops. The Ukraine participated in peacekeeping missions in seven regions. The defense budget for 1999 was \$414 million or 1.4% of GDP.

## 18 INTERNATIONAL COOPERATION

Ukraine became a member of the UN on 24 October 1945. The country is also a member of the ECE, OSCE, IAEA, IMF, ITU, UNCTAD, UNESCO, UNIDO, UPU, WHO, WIPO, WMO, and the World Bank. It is a member of the CIS, and is applying for membership in other international organizations, including the WTO. The United States has given economic and technical assistance to the country since it established formal relations in January 1992.

## 19 ECONOMY

Ukraine was central to the Soviet agricultural and industrial system. The rich agricultural land of this region (commonly called the “breadbasket” of the former Soviet Union) provided 46% of Soviet agricultural output in the 1980s, and also accounted for 25% of the USSR’s coal production. Ukraine’s economic base is dominated by industry, which accounts for over 40% of GDP (2000 est.). However, agriculture continues to play a major role in the economy, representing about 13% of GDP.

Real GDP declined 3% in 1990, 11% in 1991, and an estimated 15% in 1992. Recovery in 1997 was cut short by the effects of the Russian financial crisis of 1998. Real GDP fell -1.7% in 1998 and -0.2% in 1999. However, the economy has registered strong positive growth since 2000—5.9% in 2000; 9.1% in 2001, and a projected 5% in 2002—despite the global slowdown beginning in 2001. Official unemployment since 1999 has averaged about 4.2%. Inflation, averaging 21.67% 1998 to 2000, was reduced to a single digit rate (6%) in 2001, and is projected at 9.8% for 2002. Although still high, this is a marked improvement over the 400% hyperinflation that plagued the country in 1994. In response to the hyperinflation, the government introduced a new currency and instituted mass privatization in 1995. Yet the country remained plagued by a slow economic decline. A new civil code adopted by parliament in 1997 was expected to stabilize the country's business climate. Economic recovery beginning in 2000 is attributable to a number of factors: double-digit growth in industrial output in 2001; a good grain harvest resulting from good weather and reduced governmental controls; improved export competitiveness from the depreciation of the currency in 1998–99; the clearance of many wage and pension arrears; increased domestic demand as a result of wage and pension increases granted in 2000 and 2001; considerable idle capacity; and the expansion of export markets.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2001 Ukraine's gross domestic product (GDP) was estimated at \$205 billion. The per capita GDP was estimated at \$4,200. The annual growth rate of GDP was estimated at 9%. The average inflation rate in 2001 was 12%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 13% of GDP, industry 40%, and services 47%. Foreign aid receipts amounted to about \$11 per capita and accounted for approximately 1% of the gross national income (GNI).

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$558. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 10%. Approximately 34% of household consumption was spent on food, 16% on fuel, 6% on health care, and 4% on education. The richest 10% of the population accounted for approximately 23.2% of household consumption and the poorest 10% approximately 3.7%. It was estimated that in 2001 about 29% of the population had incomes below the poverty line.

## 21 LABOR

As of 1998, there were some 25.1 million persons in the labor force. Services accounted for 44% of the workforce, with 32% in industry and 24% in agriculture. About 3.6% of the labor force was officially reported as unemployed in 2001. There are large numbers of underemployed and unregistered unemployed workers.

In November 1992, the official Soviet-era unions were renamed the Federation of Trade Unions (FPU), which began then to operate independently from the government. Since 1992, many independent unions have been formed, providing an alternative to the official unions in most sectors of the economy. As of 2002, estimates of independent union membership was estimated to be three million. Membership in the FPU was thought to be 14 million. The right to strike is protected, except for the military, police, and continuing process plants.

The minimum employment age is 17, although children aged 15 to 17 can be employed by businesses with governmental permission. However, child labor remains a problem. In 2002, the minimum wage was \$22 per month, which was significantly below the cost of living. The maximum workweek is set at 40 hours; the law also provides for a minimum of 24 days of vacation per year. Ukraine's laws set forth occupational health and safety standards but these are frequently ignored in practice and are not sufficiently enforced by the government.

## 22 AGRICULTURE

About 57% of the total land area is arable, with another 11% utilized as permanent pasture land. Agriculture accounted for 17% of GDP in 2001. As in other former Soviet republics, total agricultural production has dramatically declined since 1990. Although the rate of decline is slowing, yearly declines still prevail. The average annual decline during 1990–2000 was 5.8%. By 1999, the agricultural sector was only producing 47% as much as it had during 1989–91. Production amounts in 1999 included (in 1,000 tons): sugar beets, 13,890; potatoes, 15,405; wheat, 13,476; dry peas, 510; fruit, 1,594; sunflower seeds, 2,750; cabbage, 1,015; grapes, 270; wine, 73; soybeans, 42; and tobacco, 3.

Ukraine's steppe region in the south is possibly the most fertile region in the world. Ukraine's famous humus-rich black soil accounts for one-third of the world's black soil and holds great potential for agricultural production. However, the soil is rapidly losing its fertility due to improper land and crop management. Ukraine typically produced over half of the sugar beets and one-fifth of all grains grown for the former USSR. In addition, two of the largest vegetable-oil research centers in the world are at Odessa and Zaporizhzhya. Agroindustry accounts for one-third of agricultural employment. To some extent, however, agroindustrial development has been hampered by the deteriorating environment as well as a shortage of investment funds due to the aftermath of the nuclear power plant disaster at Chernobyl. According to estimates, nearly 60,000 hectares (148,250 acres) of arable land in the Chernobyl vicinity are now unavailable for cultivation. Out of 33 million ha (81.5 million acres) of total arable land, more than 17 million ha (42 million acres) are depleted, 10 million ha (24.7 million acres) are eroded, and another 10 million have excessive acidity. Furthermore, 17% of arable land is located in areas where there is risk of drought.

## 23 ANIMAL HUSBANDRY

Just under 13% of Ukraine's total land area is composed of permanent pasture land. As of 2001, there were 9.4 million head of cattle, 7.6 million pigs, 963,000 sheep, 912,000 goats, 103 million chickens, and 20 million ducks. Horses, turkeys, goats, ducks, and rabbits are also bred and raised. Between 1990 and 2000, livestock production declined by 50%. Lack of finances for buying fuel pushed farmers in the public sector to sell their cattle abroad, mostly to Asian buyers. In 2001, meat production included: beef, 646,000 tons (down from 1,986,000 tons in 1990); pork, 591,000 tons (1,576,000 tons in 1990); and poultry, 239,000 tons (708,000 tons in 1990). There are several factors involved with Ukraine's declining meat production: decentralization of meat processing, with greater use of processing facilities at the farms; lack of cheap credits to buy animals; and antiquated meat processing equipment. Milk and egg production in 2001 amounted to 13.4 million tons and 546,000 tons, respectively. Milk and eggs are exported to the other CIS members. In 2001, exports of meat and meat products were valued at \$205,133,000; milk, dairy, and eggs, \$274,585,000.

## 24 FISHING

Fishing occurs mainly on the Black Sea. In 2000, the total catch came to 392,724 tons, reflecting diminished landings since the 1990 catch of 1,048,360 tons. Mackerel and sardines together accounted for 33% of the 2000 catch. Exports of fish and fish products amounted to \$42.1 million in 2000. Ukrainian fish consumption per capita amounts to 12.2 kg (26.9 lb) per year—less than half that of the former Soviet Union (27.7 kg/61 lb).

## 25 FORESTRY

About 16.5% of the total area was forest in 2000. While the radioactive contamination of forestland from the 1986 Chernobyl disaster is well-known, there is also widespread land, water, and air pollution from toxic wastes, which has also adversely affected timberlands. Forestry production in 2000 included: roundwood, 5.9 million cu m (208 million cu ft); wood-based panels, 275,000 cu m (9.7 million cu ft); wood pulp, 48,000 tons; and paper, 163,000 tons.

## 26 MINING

Ukraine was the world's seventh-leading producer of iron ore, and continued to be a major world producer of coal, ferroalloys, ilmenite, steel, and manganese ore (with 75% of the former Soviet Union's reserves). The mining and metallurgical industry employed 500,000 persons; 270,000 worked in ironmaking, steelmaking, and ferroalloys enterprises. In 2000, metal products accounted for \$6 billion worth of exports, 63% of the country's total exports; ferrous metals, whose production increased by 17% in 2000, accounted for \$4.7 billion in exports. Ferrous and nonferrous metals were Ukraine's top export commodity in 2002, and their production ranked third among the country's industries; coal production ranked first, and chemicals manufacturing ranked fifth. Fuel and petroleum products were the country's second-leading export commodity.

Production outputs for 2000 included: marketable iron ore, 55.88 million tons (47.6 million tons in 1996); manganese, mined in the Nikopol' and Bol'shoy Tokmak basins (metal content), 930,000 tons (675,000 in 1999, 1.03 million tons in 1997); rock salt, 2.29 million tons (2.8 million tons in 1996); and potash (at the Stebnik and Kalush mines), 30,000 tons (76,000 in 1996). In addition, Ukraine produced alumina, mercury, titanium (ilmenite and rutile concentrates), zirconium (the FSU's only ore producer), cement, clays (bentonite and kaolin), graphite, nitrogen, and sulfur (from the Rozdol and Yavoriv deposits). Iron ore production—concentrated at seven mining and beneficiation complexes in the Krivyy Rih (Krivoy Rog) Basin, and at the Poltavskiy complex—fell by 50% in 1990–95. Explored iron ore reserves totaled 33 billion tons, including 28 billion tons of industrial reserves; total capacity was 108.5 million tons per year. Manganese reserves totaled 2.2 billion tons, and annual capacity was 6 million tons. No antimony, cadmium, lead, nickel, tin, zinc, zircon, dolomite, limestone fluxes, quartz, soda ash, talc, or uranium was mined in the past several years, the Ukraine having sharply reduced or ceased producing a number of these commodities as a result of the large reduction in demand following the breakup of the Soviet Union.

At the end of the 1980s, Ukraine mined 5% of the world's output of mineral products. After the breakup of the Soviet Union, production fell precipitously, and recovery of the mining sector was considered critical for the country's economic recovery. A 1999 law provided tax benefits for mining and metal industry firms for two and a half years. By 2000, the privatization of small-scale enterprises was virtually completed. The mining industry was a major source of waste, having accumulated 30 billion tons of mineral wastes.

## 27 ENERGY AND POWER

Energy production in Ukraine has slowly declined since the 1970s, but consumption has intensified during the same period. Whereas Ukraine was nearly self-sufficient in fuel in 1975, by 1995 total Ukrainian energy production had fallen to less than half of consumption.

Total electricity production in 2000 amounted to 160.1 billion kWh, of which 49.5% was from fossil fuels, 7% from hydropower, and 43.44% from nuclear power. Consumption of electricity in 2000 was 151.7 billion kWh. Total capacity in 2001 was 53,700 million kW. In December 1992, Chernobyl's undamaged Reactor 1 was restarted, in order to provide much-needed electricity. On December 15, 2000, the last working reactor at the Chernobyl plant was shut down permanently. As of 2002, Ukraine had four nuclear power plants in operation.

Coal, primarily from the Donets Basin, has been a traditional resource for energy production. Since 1975, however, coal production has fallen by 30%. Production costs for coal have risen as easily accessible mines have been exhausted. Many mines now are either no longer economically viable or deteriorated and hazardous. Oil production peaked in 1972, at almost 300,000 barrels per day; by 2001, production had declined to 86,500 barrels per day. Natural gas production exceeded 68 billion cu m (2.4 trillion cu ft) in the mid-1970s, but had declined to 18 billion cu m by 2000, compared with consumption of 78.7 cu m the same year. At the beginning of 2002, Ukraine possessed 1.1 trillion cu m of proven natural gas reserves, or 0.8% of the world's total. Naftogaz Ukrainy, a new state-owned enterprise, was formed in 1998 by a merger of the existing state-owned oil and gas companies.

In 2000, 45% of primary energy consumption was provided by natural gas, 29.7% by coal, 12.1% by nuclear energy, and 11.5% by oil.

## 28 INDUSTRY

Ukraine, with strong scientific and technological sectors, is a major producer of heavy machinery and industrial equipment for sectors including mining, steelmaking, and chemicals. Significant products also include non-numerically controlled machine tools, large electrical transformers, and agricultural machinery. Ukraine's industries are important suppliers of products—including automobiles, clothing, foodstuffs, timber, and paper—to other former Soviet republics. Ukraine also retains much of the industry associated with the space program of the former USSR. Industry accounted for 40% of GDP in 2000, and the industrial production growth rate for 2001 was 14.2%. Industrial sectors slated for growth in the early 2000s were food processing and packing, textiles, woodworking, furniture and building materials, automotive parts, pharmaceuticals, medical equipment, and aerospace. The construction sector experienced growth during that period; construction spending grew by 9% in the first quarter of 2001. Ukraine produced 31,824 automobiles in 2001, and 1,417 heavy trucks in 2000, a 74% increase over 1999.

## 29 SCIENCE AND TECHNOLOGY

The Ukrainian Academy of Sciences, founded in 1919, has sections of physical engineering and mathematical sciences, and chemical engineering and biological sciences; it has 66 scientific and technical research institutes attached to it. The Ukrainian Academy of Agrarian Sciences has 13 research institutes, and the Ukrainian Academy of Medical Sciences has six research institutes. All three academies are headquartered in Kiev. A botanical museum is located in Kiev. Ukraine has 92 universities, polytechnics, and institutes that offer courses in basic and applied sciences. In 1987–97, science and engineering students accounted for 42% of university enrollment. In 1987–97, 2,171 scientists

and engineers per one million people were engaged in research and development.

### 30 DOMESTIC TRADE

As of 2002, nearly all of the previously state-owned retail establishments have been privatized. Chain stores, supermarkets, and brand-name specialty stores, many of which are owned by Ukrainians, have become more common in major cities. Department stores, smaller grocery and specialty stores, and bazaars are more common since prices at these establishments are more in line with lower and middle-class spending capabilities. About 40% to 60% of consumer goods are domestically produced. There are some successful foreign franchises, but the practice of franchising has not become wide spread. A value-added tax of 20% applies to most goods and services.

### 31 FOREIGN TRADE

Ukraine exports products to 140 countries of the world. Its main export products are ferrous metals and metal products, engines, transport and mechanical equipment, chemicals, and vehicles. Top import items include mineral products, automobiles, transportation equipment, chemicals, and textiles. Ukraine relies heavily on trade, particularly with the other former Soviet republics, although not nearly as much as it had 15 years ago. Inter-republic trade accounted for 73% of its total imports in 1988 and 85% of its total exports. In 1991, imports from the other republics equaled 26% of GDP and exports to them amounted to 25% of GDP. However, trade with former USSR states has since rebounded, with Ukraine taking in 59% of its imports from them and selling 33% of its exports to them in 2000.

In 1991/92, inter-republic trade contracted severely, partly due to a breakdown in payment mechanisms, and trade with other countries dropped as well. Much of Ukraine's foreign trade has been carried out in the context of intergovernmental agreements. However, the government has since stabilized its foreign trade. In 2000, total imports were valued at \$14 billion, and total exports at \$14.6 billion. Ukraine trades heavily with the other former Soviet republics, and since 1993 has had extensive trade ties with China.

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
Russia	3,516	5,825	-2,309
Turkey	869	160	709
Germany	741	1,134	-393
United States	727	361	366
Italy	644	347	297
China (inc. Hong Kong)	629	132	497
Poland	418	313	105
Hungary	327	165	162
Belarus	272	602	-330
Turkmenistan	149	946	-797

### 32 BALANCE OF PAYMENTS

The financial crisis of 1998 caused a large outflow of capital, and reserves fell to less than a third of their level in 1997. Due to a major exchange rate adjustment that made Ukrainian products more competitive in both external and internal markets, reserves recovered somewhat in 1999. From June 2000 to July 2001, reserves increased dramatically, back to pre-1998 levels. This growth is surprising in light of the fact that the country has received almost no external funding since 1998, when foreign investors began avoiding Ukraine. Following the 1998 devaluation of the hryvnia, trade surpluses drove the growth in reserves, and the balance of payments situation improved. Reserve growth also improved due to Ukraine's default on its

sovereign debt. As of the early 2000s, Ukraine's balance of payments position was expected to be heavily influenced by its trade with Russia.

The US Central Intelligence Agency (CIA) reports that in 2001 the purchasing power parity of Ukraine's exports was \$17.3 billion while imports totaled \$17.1 billion resulting in a trade surplus of \$200 million.

The International Monetary Fund (IMF) reports that in 2001 Ukraine had exports of goods totaling \$17.1 billion and imports totaling \$16.9 billion. The services credit totaled \$4 billion and debit \$3.58 billion. The following table summarizes Ukraine's balance of payments as reported by the IMF for 2001 in millions of US dollars.

<b>Current Account</b>	<b>1,402</b>
Balance on goods	198
Balance on services	415
Balance on income	-667
Current transfers	1,456
<b>Capital Account</b>	<b>3</b>
<b>Financial Account</b>	<b>-191</b>
Direct investment abroad	-23
Direct investment in Ukraine	792
Portfolio investment assets	1
Portfolio investment liabilities	-867
Other investment assets	-1,015
Other investment liabilities	921
<b>Net Errors and Omissions</b>	<b>-221</b>
<b>Reserves and Related Items</b>	<b>-993</b>

### 33 BANKING AND SECURITIES

The National Bank of Ukraine (NBU) is the country's national bank and was established in June 1991. It has since assumed the function of a central bank. The commercial banking sector is dominated by the big five banks of Prominvest Bank, Ukrania, Ukreximbank, Eximbank and Oshadbank. Of these, Ukreximbank and Oshadbank remain state controlled. As of 2001, Ukraine had 195 banks, but of these, only 153 remained in operation. Of these banks, approximately a quarter have foreign exchange licenses, and one-third are members of the Ukrainian Interbank Currency Exchange. It is generally acknowledged that Ukraine has too many banks and that there will be numerous mergers and failures in the coming years. In 1995 alone more than 20 banks went out of business, almost 80 changed ownership, and only eight new banks entered the market. Foreign banks, however, have been slow to enter the market.

The NBU implements monetary control through reserve requirements and the interest rates it charges banks on funds transferred from the state savings bank. Before November 1992, the NBU was able to obtain additional rubles by running a surplus on transactions with other republics in the ruble zone. However, with inflation accelerating since early 1991, the supply of rubles proved insufficient to meet the economy's needs, and Ukraine consequently resorted to the use of coupons. The resulting rise in inflation was the main factor behind Ukraine's enforced departure from the ruble zone in November 1992.

The International Monetary Fund reports that in 2001, currency and demand deposits—an aggregate commonly known as M1—were equal to \$5.5 billion. In that same year, M2—an aggregate equal to M1 plus savings deposits, small time deposits, and money market mutual funds—was \$8.4 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 16.57%. The discount rate, the interest rate at which the central bank lends to financial institutions in the short term, was 12.5%.

The Law on Securities and the Stock Exchange came into effect in January 1992. There are seven stock exchanges and seven commodities exchanges, although these are more like the auction

houses that sprang up after the collapse of the Soviet Union in 1991 as conduits for goods rather than the securities exchanges found in the West. Capital markets are undeveloped even by the standards of countries such as Russia. The Ukrainian Stock Exchange (USE), established in 1992, acts to coordinate primary and secondary market trading of Ukrainian securities. In 2001, the exchange had 131 companies listed and total market capitalization of \$1.4 billion. Trading value was \$226 million, with a turnover ratio of 13.9%

### 34 INSURANCE

Among the insurance companies operating in Ukraine in 1997 were: Asko-Kiev Central Insurance Co.; Factotum Joint-Stock Insurance Co.; First International Insurance Group; Ometa-Instert Joint-Stock Insurance Co.; Skide Insurance Co.; and Slavia. Beginning in August 1998, the Ukrainian government required that foreign visitors purchase mandatory "emergency medical insurance" from the Ukrainian State Insurance Company. In addition, personal accident insurance is required for all passengers on public transportation. Foreign shareholders in insurance companies may not exceed 49%.

### 35 PUBLIC FINANCE

Ukraine has displayed positive growth in recent years, but long term growth will require certain market reforms. The economy is burdened by excessive government regulation, and major sectors such as energy and telecommunications remain to be privatized. Corporate governance is weak, and corruption is rampant. Ukraine receives aid from the IMF, although the relationship between those two entities has not always been successful; Ukraine has had problems adhering to IMF monetary conditions.

The US Central Intelligence Agency (CIA) estimates that in 2002 Ukraine's central government took in revenues of approximately \$10.2 billion and had expenditures of \$11.1 billion. Overall, the government registered a deficit of approximately \$900 million. External debt totaled \$11.8 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	84.3%	8,601
Tax revenue	77.2%	7,872
Non-tax revenue	1.7%	171
Capital revenue	0.6%	63
Grants	4.9%	495
EXPENDITURES	100.0%	11,100
General public services	7.3%	815
Defense	5.8%	649
Public order and safety	6.1%	680
Education	6.2%	687
Health	1.9%	215
Social security	43.2%	4,793
Housing and community amenities	0.5%	57
Recreation, cultural, and religious affairs	0.7%	77
Economic affairs and services	8.2%	906
Other expenditures	13.3%	1,482
Interest payments	6.7%	739

### 36 TAXATION

In 1997/98 Ukraine reformed its tax system. As of 2002, the standard corporate tax rate was 30% but a reduced rate of 9% was charged to mining enterprises, and increased rates of 45% and 60% applied to income from activities like gambling. Withholding taxes on income from royalties and interest is 15%, and 30% on dividend income.

The personal income tax schedule is progressive with six brackets ranging from 20% to 40%. Payroll taxes are 3.7%. For non-residents, the income tax schedule ranges from 0% to 20%.

The Ukraine's main indirect tax is its value-added tax (VAT), with a standard rate of 20%. A 0% VAT rate applies to exports and international transportation services.

### 37 CUSTOMS AND DUTIES

Import licenses are required for all foreign trade activities in Ukraine. Ukraine has signed trade agreements with the United States, Russia, Iran, Turkmenistan, the United Arab Emirates, and several other former Soviet republics. As of 2002, tariffs on imports range from 0% to 20%, with the tariff on automobiles being the highest. Preferential tariffs are given to developing countries and privileged tariffs are given to countries that have trade agreements with Ukraine. Other duties include a 20% value-added tax (VAT) and excise taxes (up to 300%). In 2000, the number of categories of goods eligible for excise tax was reduced from 20 to five: alcohol, automobiles, jewelry, oil products, and tobacco.

### 38 FOREIGN INVESTMENT

Among the transitional economies of Eastern Europe, nowhere has the gap between economic potential and economic performance been wider than in the Ukraine, and nowhere has the gap been more glaring than in the foreign investment statistics. By 2000, total foreign direct investment (FDI) in the Ukraine was still less than \$4 billion, compared with \$40 billion that had flowed into Poland and \$20 billion into Hungary during the same period.

Independence was first greeted by a rush of inward investment. In 1991, the number of joint ventures operating in Ukraine rose from 76 in October 1990 to 189 in October 1991. Following the enactment in March 1992 of a more favorable foreign investment law, joint ventures jumped to 1,400 early in 1993. Most of these ventures were in industry, with a few engaged in foreign trade. The government's 1993 economic plan included tax incentives and other benefits for investors in specific areas including agro-industrial enterprises, energy, and production of consumer goods. However, by 1996 and 1997, rampant official graft and corruption were crippling foreign investment. Several significant multinational corporations withdrew from Ukraine after government decrees were issued that steered business to state-owned firms in which government officials were stakeholders. This action occurred despite the Foreign Investment Law of 1996, which purported to put foreign investors on an equal footing with Ukrainian nationals, and President Kuchma's pledge to battle corruption. The government had declared a need for \$40 billion in foreign investment, but only \$2.8 billion was invested between 1992 and 1998.

In 1997 the law "On Special (Free) Economic Zones" was adopted, establishing three types of special investment zones: free economic zones (FEZs), territories with a special investment regime (SEZs), and territories of priority development (TPDs). As of 2002, there were nine TPDs and eleven FEZs and SEZs. In 2002, the special zones attracted investment totaling \$909 million, both domestic and foreign, but pressure has been brought by the IMF to either eliminate the special zones or curb their tax and regulatory exemptions.

Annual foreign direct investment (FDI) inflow peaked at \$747 billion in 1998, up from \$623 billion in 1997, before falling to \$471 billion in 1999 in the wake of the Russian financial crisis. FDI inflow recovered to \$593 billion in 2000, but then fell back to \$531 million in the global economic slowdown of 2001. Contrary to the worldwide trend of reduced FDI flow after the 11 September 2001 terrorist attacks, the Ukraine had its best year since independence, with inflow increasing over 15% to an

estimated \$738.7 million in 2002. As of October 2002, total FDI since 1992 amounted to almost \$5 billion.

As of 1 October 2002, according to the Ukraine State Statistics Committee, FDI had come from 112 countries. The United States remained the largest source of FDI, with \$843 million or 17% of the total. US-based sources were also probably involved in some of the FDI flows from Cyprus (11% of the total) and the British Virgin Islands (6.4%). The United Kingdom accounted for 9.5% of total FDI in the Ukraine since 1992; the Netherlands, 7.8%; the Russian Federation, 6.5%; Germany, 5%; Switzerland, 4.2%; Austria, 3.9%; and Korea, 3.5%. The remaining 24.2% came from 102 other countries. Per capita FDI stock increased from \$78 at the end of 2000 to \$102 at the beginning of October 2002.

### 39 ECONOMIC DEVELOPMENT

In 1993, Ukraine's parliament tentatively approved a new economic reform plan to stabilize the republic's economy, attract more capital from abroad, and lay the groundwork for a market economy. Measures proposed included stricter monetary and banking regulation, and demonopolization of industries. A privatization program was under way in sectors including retail trade, services, the food industry, agriculture, and housing.

Since the election of President Kuchma in 1994, the government has implemented a far-reaching economic reform program. Almost all price and trade controls have been abolished in an effort to stabilize the new market economy. Privatization began in earnest in 1995, and a new convertible currency was adopted in 1996. In the 1990s, Ukraine continued to register negative growth. By the end of the 1990s, real gross domestic product (GDP) declined to 40% of its pre-independence level. In late 1998, the International Monetary Fund (IMF) loaned Ukraine another \$2.2 billion after Ukraine promised to introduce more fiscal discipline.

The economy started to grow in 2000; GDP growth in 2002 was over 4.5%. Small- and medium-sized enterprises were privatized by 2002, but the energy and telecommunications sectors had yet to be privatized. The government passed a foreign investment law, but bureaucratic hurdles, poor corporate governance, corruption, and the weak enforcement of contract law by courts all hamper investment. At the end of October 2002, total foreign direct investment into the country amounted to around \$4.9 billion, which was one of the lowest figures in the region. In 2002, land reforms were ongoing, supporting growth in the agricultural sector.

### 40 SOCIAL DEVELOPMENT

The social security system provides all employees with old age, disability, and survivor's pensions. A 1% contribution by employees supplements a 37% contribution from employers. Retirement is normally at age 60 for men and 55 for women, although this is reduced by five years for those engaged in arduous work and mothers with five or more children. There is a dual system of medical benefits. Cash benefits for sickness are provided for employed persons, while a universal medical care system exists for all residents. Maternity benefits of 100% of wages for 70 days before and 56 days after the expected date of childbirth are payable to all employed women. Family allowances are provided to families with large numbers of children. Special provisions exist for Chernobyl victims. Workers' compensation and unemployment benefits are also provided.

The law provides women with the same employment rights as men, although they rarely attain high-level managerial or political positions. Women have been disproportionately affected by the country's economic crisis. Estimates suggest that they may account for as many as 70% of the unemployed. Women who are employed mostly work in low-paying jobs or in industries that have trouble paying their employees on time. Women generally have high levels of education and are fairly well represented in

politics, although they have a greater presence in local government positions. Violence against women, domestic abuse, and sexual harassment in the workplace are pervasive.

Harassment of racial minorities and religious intolerance are increasing problems. Anti-Semitic incidents and societal discrimination of ethnic minorities are commonplace. The Roma population is subject to abuse by police and general intolerance by the public. Human rights violations continue despite a decline in some areas over recent years. Prisoners are mistreated by authorities and live in substandard conditions. The government interferes with freedom of the press and with the electoral process.

### 41 HEALTH

Ukraine's health care system is undergoing a complicated transition period. In 1992, there was a fixed level of expenses for health services (an estimated 10% of the national income). As of 1999 total health care expenditure was estimated at 4.4% of GDP. The deterioration of the economy and declining living standards have had a negative impact on birth and mortality rates and women's and children's health standards need much improvement. Although safe water was available to 96.5%, proper sanitation was available to only 70% of the urban population and 8% of the rural population in the mid-1990s. Poor nutrition is another major problem in the Ukraine, and a shortage of basic supplies exacerbates the health care situation.

The country has established 156 independent children's hospitals. As of the mid-1990s, there were over 400 pediatric departments functioning in central district hospitals, with 92,102 pediatric beds (84 per 10,000 children). There were 22,000 pediatricians (two per 1,000 children) in 1993. In the same year, there were 29 regional adult hospitals; 25 regional infant hospitals; 485 central district hospitals; 1,500 rural hospitals; and specialized dispensaries and clinics. Altogether there were a total of 700,000 hospital beds. In addition, there were 6,500 outpatient polyclinical institutions. Medical personnel in the mid-1990s included 220,000 physicians and more than 500,000 physician's assistants. As of 1999, there were an estimated 3 physicians and 11.8 hospital beds per 1,000 people.

Infant mortality was reported at 21 per 1,000 live births in 2000. There were 477,366 births in 1999; life expectancy was 68 years in 2000. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 10 and 16 per 1,000 people. Immunization rates for 1997 for children up to one year old were: tuberculosis, 95%; diphtheria, pertussis, and tetanus, 96%; polio, 97%; and measles, 97%.

The leading causes of death were cardiovascular and respiratory diseases, cancer, traumas, and accidents. The vulnerability of this country to HIV spread is reflected in the tenfold increase in syphilis cases active in 1991-95. As of 1999, the number of people living with HIV/AIDS was estimated to be about 240,000 and deaths from AIDS that year were estimated at 4,000. HIV prevalence was 0.96 per 100 adults. In 1994 there were 8,471 tuberculosis cases and 1,416 measles cases. The incidence of tuberculosis was 73 per 100,000 people in 1999.

The likelihood of dying after age 65 of heart disease in Ukraine was below the average for medium human development as defined by the World Bank. In the mid-1990s, that rate exceeded 300 per 1,000 for men and 295 per 1,000 for women. On the other hand, cancer rates for men were higher. Death after age 65 from cancer was 133 per 1,000 people in the mid-1990s.

### 42 HOUSING

At last estimate, average housing space per capita totaled 18 sq m. The housing and municipal services sector employed more than 880,000 workers in the mid-1990s.

Before 1994, most housing and utility costs were covered by the government through a policy which was causing major



federal debt. Through an IMF approved program of economic reforms put in place in October 1994, residents were asked to contribute a much greater amount toward their own rent and utilities. Unfortunately, many households were unable to do so. An average three-person household, living in a three-room flat of about 500 square meters was charged expenses of about \$30 per month. The average monthly income of such a family was \$50. In 1995, the government put in place a subsidy program to assist low-income families in meeting rising housing costs, but funding for housing continues to be a problem.

### 43 EDUCATION

Ukraine has virtually a 100% literacy rate with nearly 15% of the adult population having completed higher education. Of the remaining 85%, 7% have completed only elementary school, and 78% have completed secondary education.

While Ukrainian is the most commonly taught language and medium of instruction, other languages, such as Russian, Hungarian, Polish, Moldovan, or Crimean-Tatar, are offered based on the ethnic composition of the particular school district. Most schools are state run. In the 21,720 general primary schools, there were 2,658,800 students enrolled in 1994. There were 4,731,200 students enrolled in secondary schools in the same year. The pupil-teacher ratio at the primary level was estimated at 21 to 1 in 1999. In 1996, institutions of higher learning enrolled 1,541,000 students. As of 1999, public expenditure on education was estimated at 4.4% of GDP.

### 44 LIBRARIES AND MUSEUMS

The National Parliamentary Library of Ukraine in Kiev holds 3.9 million volumes. Other large collections include the V.G. Korolenko State Scientific Library with 6.7 million volumes and the libraries at Lviv Polytechnic University (three million), Franko State University in Lviv (2.5 million), Shevchenko Kiev University (2.7 million), and Kiev Polytechnic Institute (2.5 million). In 1995, there were reported to be 21,857 public libraries operating in Ukraine with an overall stock of 336.7 million books.

Kiev has the Kiev Museum of Western and Oriental Art, the Kiev State Museum of Russian Art, the Kiev State Museum of Ukrainian Art, and the State Historical Museum. There is a Museum of Fine Arts in Lugansk. Lviv houses the State Museum of Ethnography and Arts and Crafts and the Literary Museum of Ivan Franko. Odesa is home to the Odesa State Museum of European and Oriental Art, the Odesa Art Museum, and the Odesa Archaeological Museum.

### 45 MEDIA

Ukraine, which inherited part of the former USSR system, had about 9.4 million telephone lines in 1999. Cellular phone service is available in at least 100 cities and there were an estimated 236,000 subscribers in 1998. The State Committee for Radio and Television controls broadcasting. There are four radio networks headquartered in Kiev, including one for foreign broadcasts and one solely for news. Ukrainian TV also broadcasts from Kiev. As of 1999 there were at least 25 local radio stations and 33 television stations. In 2000, there were 889 radios and 456 television sets for every 1,000 people. In 2001, 260 Internet service providers were serving 750,000 users.

Among the leading daily newspapers (with 2002 circulation) are: *Holos Ukrainy* (*Voice of Ukraine*, 768,000); *Pravda Ukrainy* (358,300); *Demokratychna Ukraine* (*Democratic Ukraine*, 311,300); *Nezavisimost* (*Independence*, 228,000); and *Uryadoviy Kuryer* (*Official Courier*, 200,000).

The constitution and a 1991 law provide for free speech and a free press. Criticism of the government is said to be tolerated, though some journalists practice self-censorship because of occasional pressures from the government.

## 46 ORGANIZATIONS

The Ukraine Chamber of Commerce and the Congress of Business Circles of Ukraine promotes the commercial and business activities of the country to the rest of the world. Many of Ukraine's trade unions belong to the umbrella organization called the Federation of Independent Trade Unions. There is an active Ukrainian Consumers' Association.

National cultural organizations include the Ukrainian Cultural Educational Organization and Flamenko, which promotes cultural exchange programs. National youth organizations include the Council of Ukrainian Students, the Ukrainian Fund of International Youth Cooperation, Ukrainian Girl Guides and Girls Scouts Association, the Compass Club, and YMCA/YWCA.

National social action organizations include the Ukrainian Center for Human Rights, the Ukrainian Environmental Association, the Ukrainian Legal Foundation, Freedom House (advocating the development of democratic institutions), The Children's Fund, and Zhinocha Hromada, an organization focused on encouraging women to be active in economic and community development. International organizations with national chapters include Caritas and the Red Cross.

## 47 TOURISM, TRAVEL, AND RECREATION

Kiev, Ukraine's major cultural center, is known for its beautiful churches and golden-domed cathedrals, although much of its classic architecture was destroyed or obscured by Communist planners in the 1930s. The cathedral of St. Sophia, built in the 11th century, is one of the finest examples of Russo-Byzantine architecture. Another major tourist attraction is the Golden Gate, an 11th century fortification restored in 1982. Lviv (formerly Lvov) offers architectural sights ranging from late-13th-century Russian to 16th-century Gothic structures.

In 2000, there were 4,405,746 tourist arrivals. The previous year, tourism receipts totaled \$2.1 billion. Also in 1999, there were 166,254 beds available in hotels and similar establishments, with an occupancy rate of 22%.

According to 2002 estimates from the US government, the cost of staying in Kiev is about \$262 per day.

## 48 FAMOUS UKRAINIANS

Leonid M. Kravchuk and Vitold P. Fokin were respectively the first president and prime minister of Ukraine. Leonid Brezhnev (Dneprodzhershinsk, Ukraine, 1906–82) led the Soviet Union from 1966–82. Outstanding representatives of the culture and literature of Ukraine include poet Taras Shevchenko (1814–61) and the Jewish writer Sholom Aleichem (Solomon Rabinowitz, 1859–1916).

## 49 DEPENDENCIES

Ukraine has no territories or colonies.

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# UNITED KINGDOM

## United Kingdom of Great Britain and Northern Ireland

**CAPITAL:** London

**FLAG:** The Union Jack, adopted in 1800, is a combination of the banners of England (St. George's flag: a red cross with extended horizontals on a white field), Scotland (St. Andrew's flag: a white saltire cross on a blue field), and Ireland (St. Patrick's flag: a red saltire cross on a white field). The arms of the saltire crosses do not meet at the center.

**ANTHEM:** *God Save the Queen.*

**MONETARY UNIT:** The pound sterling (£) is a paper currency of 100 pence. Before decimal coinage was introduced on 15 February 1971, the pound had been divided into 20 shillings, each shilling representing 12 pennies (p) or pence; some old-style coins are still in circulation. Under the new system, there are coins of 1, 2, 5, 10, 20, and 50 pence and 1 and 2 pounds, and notes of 5, 10, 20, and 50 pounds. £1 = \$1.59 (or \$1 = £0.628; in May 2003).

**WEIGHTS AND MEASURES:** Although the traditional imperial system of weights and measures is still in use (sample units: of weight, the stone of 14 pounds equivalent to 6.35 kilograms; of length, the yard equivalent to 0.914 meter; of capacity, a bushel equivalent to 36.37 liters), a changeover to the metric system is in progress.

**HOLIDAYS:** New Year's Day, 1 January; Good Friday; Easter Monday (except Scotland); Late Summer Holiday, last Monday in August or 1st in September (except Scotland); Christmas, 25 December; and Boxing Day, 1st weekday after Christmas. Also observed in Scotland are bank holidays on 2 January and on the 1st Monday in August. Northern Ireland observes St. Patrick's Day, 17 March; and Orangeman's Day, 12 July, commemorating the Battle of the Boyne in 1690.

**TIME:** GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

The United Kingdom is situated off the northwest coast of Europe between the Atlantic Ocean on the N and NW and the North Sea on the E, separated from the Continent by the Strait of Dover and the English Channel, 34 km (21 mi) wide at its narrowest point, and from the Irish Republic by the Irish Sea and St. George's Channel. Its total area of 244,820 sq km (94,526 sq mi) consists of the island of Great Britain—formed by England, 130,439 sq km (50,363 sq mi); Wales, 20,768 sq km (8,018 sq mi); and Scotland, 78,783 sq km (30,418 sq mi)—and Northern Ireland, 14,120 sq km (5,452 sq mi), on the island of Ireland, separated from Great Britain by the North Channel. Comparatively, the area occupied by the United Kingdom is slightly smaller than the state of Oregon. There are also several island groups and hundreds of small single islands, most of them administratively part of the mainland units. The United Kingdom extends about 965 km (600 mi) N-S and about 485 km (300 mi) E-W. Its total boundary length is 12,789 km (7,947 mi), of which 12,429 km (7,723 mi) is coastline. The Isle of Man, 588 sq km (227 sq mi), and the Channel Islands, comprising Jersey, Guernsey, Alderney, and Sark, with a combined area of 194 sq km (75 sq mi), are not part of the United Kingdom but are dependencies of the crown. The 0° meridian of longitude passes through the old Royal Observatory, located at Greenwich in Greater London. The United Kingdom's capital city, London, is located in the southeast part of Great Britain.

## <sup>2</sup>TOPOGRAPHY

England is divided into the hill regions of the north, west, and southwest and the rolling downs and low plains of the east and

southeast. Running from east to west on the extreme north Scottish border are the Cheviot Hills. The Pennine Range runs north and south from the Scottish border to Derbyshire in central England. The rest of the countryside consists mainly of rich agricultural lands, occasional moors, and plains. South of the Pennines lie the Midlands (East and West), a plains region with low, rolling hills and fertile valleys. The eastern coast is low-lying, much of it less than 5 m (15 ft) above sea level; for centuries parts of it have been protected by embankments against inundation from gales and unusually high tides. Little of the south and east rises to higher than 300 m (1,000 ft).

The highest point in England is Scafell Pike (978 m/3,210 ft) in the famed Lake District of the northwest. The longest of the rivers flowing from the central highlands to the sea are the Severn (about 340 km/210 mi) in the west and the Thames (about 320 km/200 mi) in the southeast. Other rivers include the Humber, the Tees, the Tyne, and the Tweed in the east, the Avon and Exe in the south, and the Mersey in the west.

Scotland has three distinct topographical regions: the Northern Highlands, occupying almost the entire northern half of the country and containing the highest point in the British Isles, Ben Nevis (1,343 m/4,406 ft), as well as Loch Ness, site of a fabled "monster"; the Central Lowlands, with an average elevation of about 150 m (500 ft) and containing the valleys of the Tay, Forth, and Clyde rivers, as well as Loch Lomond, Scotland's largest lake; and the Southern Uplands, rising to their peak at Merrick (843 m/2,766 ft), with moorland cut by many valleys and rivers.

Wales is largely mountainous and bleak, with much of the land suitable only for pasture. The Cambrian Mountains occupy almost the entire area and include Wales's highest point, Mt. Snowdon (1,086 m/3,563 ft). There are narrow coastal plains in

the south and west and small lowland areas in the north, including the valley of the Dee.

Northern Ireland consists mainly of low-lying plateaus and hills, generally about 150 to 180 m (500–600 ft) high. The Mourne Mountains in the southeast include Slieve Donard (852 m/2,796 ft), the highest point in Northern Ireland. In a central depression lies Lough Neagh, the largest lake in the United Kingdom.

The United Kingdom's long and rugged coastline, heavily indented, has towering cliffs and headlands and numerous bays and inlets, among them the deep and narrow lochs and the wide firths of Scotland. Many river estuaries serve as fine harbors.

### 3 CLIMATE

Despite its northern latitude, the United Kingdom generally enjoys a temperate climate, warmed by the North Atlantic Drift, a continuation of the Gulf Stream, and by southwest winds. Mean monthly temperatures range (north to south) from 3°C to 5°C (37–41°F) in winter and from 12°C to 16°C (54–61°F) in summer. The mean annual temperature in the west near sea level ranges from 8°C (46°F) in the Hebrides to 11°C (52°F) in the far southwest of England. Rarely do temperatures rise in summer to over 32°C (90°F) or drop in winter below -10°C (14°F). Rainfall, averaging more than 100 cm (40 in) throughout the United Kingdom, is heaviest on the western and northern heights (over 380 cm/150 in), lowest along the eastern and southeastern coasts. Fairly even distribution of rain throughout the year, together with the prevalence of mists and fogs, results in scanty sunshine—averaging from half an hour to two hours a day in winter and from five to eight hours in summer.

In the spring of 1997 there was an intense drought in southern and western England; the previous two years were the driest in England and Wales since reliable record-keeping began in 1767.

### 4 FLORA AND FAUNA

With its mild climate and varied soils, the United Kingdom has a diverse pattern of natural vegetation. Originally, oak forests probably covered the lowland, except for the fens and marsh areas, while pine forests and patches of moorland covered the higher or sandy ground. Over the centuries, much of the forest area, especially on the lowlands, was cleared for cultivation. Today only about 9% of the total surface is wooded. Fairly extensive forests remain in east and north Scotland and in southeast England. Oak, elm, ash, and beech are the most common trees in England. Pine and birch are most common in Scotland. Almost all the lowland outside the industrial centers is farmland, with a varied seminatural vegetation of grasses and flowering plants. Wild vegetation consists of the natural flora of woods, fens and marshes, cliffs, chalk downs, and mountain slopes, the most widespread being the heather, grasses, gorse, and bracken of the moorlands.

The fauna is similar to that of northwestern continental Europe, although there are fewer species. Some of the larger mammals—wolf, bear, boar, and reindeer—are extinct, but red and roe deer are protected for sport. Common smaller mammals are foxes, hares, hedgehogs, rabbits, weasels, stoats, shrews, rats, and mice; otters are found in many rivers, and seals frequently appear along the coast. There are few reptiles and amphibians. Roughly 230 species of birds reside in the United Kingdom, and another 200 are migratory. Most numerous are the chaffinch, blackbird, sparrow, and starling. The number of large birds is declining, however, except for game birds—pheasant, partridge, and red grouse—which are protected. With the reclamation of the marshlands, waterfowl are moving to the many bird sanctuaries. The rivers and lakes abound in salmon, trout, perch, pike, roach, dace, and grayling. There are more than 21,000 species of insects.

### 5 ENVIRONMENT

Government officials and agencies with principal responsibility for environmental protection are the Department of the Environment, the Department of the Environment for Northern Ireland, and the secretaries of state for Scotland and Wales. The National Trust (for Places of Historic Interest or Natural Beauty), an organization of more than 1.3 million members, has acquired some 750 km (466 mi) of coastline in England, Northern Ireland, and Wales. In addition, 127 km (79 mi) of coastline in Scotland are protected under agreement with the National Trust of Scotland. Two countryside commissions, one for England and Wales and one for Scotland, are charged with conserving the beauty and amenities of rural areas. By 1982, the former had designated 10 national parks, covering 13,600 sq km (5,250 sq mi), or 9% of the area of England and Wales. An additional 36 areas of outstanding beauty have been designated, covering 17,000 sq km (6,600 sq mi). Scotland has 40 national scenic areas, with more than 98% of all Scottish lands under the commission's jurisdiction. Northern Ireland has eight designated areas of outstanding natural beauty, seven country parks, and one regional park. There are also seven forest parks in Great Britain and nine in Northern Ireland. England and Wales have 600,000 hectares (1,500,000 acres) of common land, much of which is open to the public. The Nature Conservancy Council manages 214 national nature reserves in Great Britain and 41 in Northern Ireland.

Air pollution is a significant environmental concern for the United Kingdom. In 1992 the nation had the world's eighth-highest level of industrial carbon dioxide emissions, which totaled 566.2 million metric tons, a per capita level of 9.78 metric tons. In 1996, the total dropped to 556.9 million metric tons. In addition, its sulphur contributes to the formation of acid rain in the surrounding countries of Western Europe. Air quality abatement has improved greatly in the United Kingdom as a result of the Control of Pollution Act of 1974 and other legislation. Between 1960 and 1986, total emissions and average concentration of smoke in the air fell by an estimated 85%; the average concentration of sulfur dioxide in urban areas has fallen by more than 40% since 1970, with a further reduction of 30% expected by the end of the 1990s. London is no longer densely smog-ridden, and winter sunlight has been increasing in various industrial cities.

Water pollution from agricultural sources is also a problem. The nation has 145 cubic km of water of which 2% is used for farming activity and 8% for industrial purposes. The United Kingdom's cities produce an average of 22 million tons of solid waste per year. Pollution of the Thames has been reduced to one quarter of its level in the 1950s, and more than 80% of the population is served by sewage treatment plants.

The Food and Environment Protection Act of 1985 introduced special controls over dumping and marine incineration in response to the problems of regulation of oil and gas development and of large-scale dumping at sea.

As of 2001, 20.4% of the United Kingdom's total land area is protected. Four of the nation's mammal species, two bird species, and 13 plant species are endangered. The European otter, Atlantic sturgeon, Atlantic ridley, eskimo curlew, and Spengler's freshwater mussel are classified as endangered. The great auk has become extinct.

### 6 POPULATION

The population of United Kingdom in 2003 was estimated by the United Nations at 59,251,000, which placed it as number 21 in population among the 193 nations of the world. In that year approximately 16% of the population was over 65 years of age, with another 19% of the population under 15 years of age. There

# United Kingdom



LOCATION: 49°56' to 60°50' N; 1°45' E to 8°10' W. BOUNDARY LENGTHS: Total coastline, 12,429 kilometers (7,722 miles), of which Northern Ireland's comprises 375 kilometers (233 miles); Irish Republic, 360 kilometers (225 miles). TERRITORIAL SEA LIMIT: 3 miles.

were 95 males for every 100 females in the country in 2003. According to the UN, the annual population growth rate for 2000–2005 is 0.31%, with the projected population for the year 2015 at 61,275,000. The overall estimated population density in 2002 was 246 per sq km (637 per sq mi), but in England there were 371 persons per sq km (961 per sq mi), with 4,233 persons per sq km (10,968 per sq mi) in Greater London.

It was estimated by the Population Reference Bureau that 90% of the population lived in urban areas in 2001. The capital city, London, had a population of 7,639,000 in that year. Other major metropolitan areas in England were Birmingham, 2,271,000; Manchester, 2,252,000; Leeds, 1,433,000; and Liverpool, 912,000. Other large English towns include Sheffield, 503,000; Bradford, 451,000; Bristol, 372,000; and Coventry, 295,000. The

major cities in Scotland are Glasgow (654,000) and Edinburgh (422,000). Belfast, the major city in Northern Ireland, had a population of 287,500; and Cardiff, in Wales, 277,000. According to the United Nations, the urban population growth rate for 2000–2005 was 0.2%.

## 7 MIGRATION

From 1815 to 1930, the balance of migration was markedly outward, and well over 20 million persons left Britain, settling mainly within the British Empire and in the US. Since 1931, however, the flow has largely been inward. From 1931 to 1940, when emigration was very low, there was extensive immigration from Europe, including a quarter of a million refugees seeking sanctuary; during the 1950s, immigration from the Commonwealth, especially from the Caribbean countries, India, and Pakistan, steadily increased. The net influx of some 388,000 people (chiefly from the Commonwealth) during 1960–62 led to the introduction of the Commonwealth Immigrants Act of 1962, giving the government power to restrict the entry of Commonwealth citizens lacking adequate prospects of employment or means of self-support. Effective 1 January 1983, a new law further restricted entry by creating three categories of citizenship, two of which—citizens of British Dependent Territories and “British overseas citizens”—entail no right to live in the United Kingdom. Those in the last category, consisting of an estimated 1.5 million members of Asian minorities who chose to retain British passports when Malaysia and Britain’s East African lands became independent, may not pass their British citizenship to their children without UK government approval.

Immigration is now on a quota basis. Between 1986 and 1991, 1,334,000 persons left the United Kingdom to live abroad, and 1,461,000 came from overseas to live in the United Kingdom, resulting in a net in-migration of 127,000. The total number of foreign residents in the United Kingdom was about 1,875,000 in 1990. Of these, more than a third were Irish (638,000). Indians were second (155,000) and Americans third (102,000).

As of 1999, the United Kingdom had the second-largest number of asylum applications in Europe: 41,500 in 1997 and 57,700 in 1998. Main countries of origin include the Federal Republic of Yugoslavia, Somalia, Sri Lanka, the Russian Federation, Afghanistan, and Turkey. Of the 31,570 decisions on asylum applications made in 1998, 5,345 (17%) were recognized as refugees; 3,910 (12%) were given exceptional leave to remain; and 22,315 (71%) were rejected. In response to the Kosovo crisis in 1999, the United Kingdom received 4,346 Kosovar refugees from Macedonia under the UNHCR/IOM Humanitarian Evacuation Programme. The net migration rate in 1999 was 1.11 migrants per 1,000 population.

## 8 ETHNIC GROUPS

The present-day English, Welsh, Scots, and Irish are descended from a long succession of early peoples: Iberians, Celts, Romans, Anglo-Saxons, Danes, and Normans, the last of whom invaded and conquered England in 1066–70. In 1998, 81.5% of UK residents were English. The Scottish formed about 9.6% of the population; Irish made up 2.4%; Welsh accounted for 1.9%; Ulster for 1.8%; and West Indian, Indian, Pakistani, and various other groups comprised the remaining 2.8%.

## 9 LANGUAGES

Spoken throughout the United Kingdom and, in 1992, by an estimated 456 million people throughout the world, English is second only to Mandarin Chinese in the number of speakers in the world. It is taught extensively as a second language and is used worldwide as a language of commerce, diplomacy, and scientific discourse. In northwestern Wales, Welsh, a form of Brythonic Celtic, is the first language of most of the inhabitants.

Approximately 26% of those living in Wales speak Welsh (up from 19% in 1991). Some 60,000 or so persons in western Scotland speak the Scottish form of Gaelic (down from 80,000 in 1991), and a few families in Northern Ireland speak Irish Gaelic. On the Isle of Man, the Manx variety of Celtic is used in official pronouncements; in the Channel Islands some persons still speak a Norman-French dialect. French remains the language of Jersey for official ceremonies.

## 10 RELIGIONS

There is complete religious freedom in the United Kingdom. All churches and religious societies may own property and conduct schools. Established churches are the Church of England (Anglican) and the Church of Scotland (Presbyterian). The former is uniquely related to the crown in that the sovereign must be a member and, on accession, promise to uphold the faith; it is also linked with the state through the House of Lords, where the archbishops of Canterbury and York have seats. The archbishop of Canterbury is primate of all England. In 2002, about 45% of the English population belonged to the Church of England.

The established Church of Scotland has a Presbyterian form of government: all ministers are of equal status and each of the congregations is locally governed by its minister and elected elders. In 2002, Presbyterian membership was estimated about 4% of the total population.

Other Protestant churches include the unestablished Anglican churches in Ireland, Scotland, and Wales; the Presbyterians (about 4% of the population), the Methodists (about 2% of the population); the Baptist Church; and the United Reformed Church (the product of the 1973 merger of the Presbyterian and Congregationalist churches to which not all churches acceded). A total of about 2% of the population are Jehovah’s Witnesses, Mormons, members of the Church of Christ, Christian Scientists, or Unitarians. The Roman Catholic Church in the United Kingdom has some 9 million adherents, or about 10% of the population. The Anglo-Jewish community, with an estimated 300,000 members, is the second-largest group of Jews in Western Europe. There are also sizable communities of Muslims, Sikhs, Hindus, and Buddhists.

Many immigrants have established community religious centers in the United Kingdom. Christian groups include Greek, Russian, Polish, Serb-Orthodox, Estonian and Latvian Orthodox, and the Armenian Church; Lutheran churches from various parts of Europe are also represented.

## 11 TRANSPORTATION

In Great Britain, railways, railway-owned steamships, docks, hotels, road transport, canals, and the entire London passenger transport system—the largest urban transport system in the world—were nationalized on 1 January 1948 under the control of the British Transport Commission (BTC). In 1962, the BTC was replaced by the British Railways Board, the London Transport Board, the British Transport Docks Board, and the British Waterways Board. Under the 1968 Transport Act, national transport operations were reorganized, with the creation of the National Freight Corp., the Freight Integration Council, and the National Bus Co. Organization of public transport in Northern Ireland is autonomous.

In 2002, Great Britain had 371,603 km (230,914 mi) of paved highways, including 3,303 km (2,052 mi) of express motorways. Licensed motor vehicles in Great Britain as of 2000 numbered 25.5 million, including 22.3 million passenger cars. The Humber Bridge, the world’s longest single-span suspension bridge, with a center span of 1,410 m (4,626 ft), links the city of Hull with a less developed region to the south. Eurotunnel, a British-French consortium, recently built two high-speed 50-km (31-mi) rail tunnels beneath the seabed of the English Channel. The project, referred to as the “Chunnel,” links points near Folkestone,

England (near Dover), and Calais, France. The Channel Tunnel is the largest privately financed construction project to date, with an estimated cost (in 1991) of \$15 billion; it also has the longest tunnel system (38 km/24 mi) ever built under water. In November 1996, a truck aboard a freighter entering the tunnel caught fire, causing serious damage to the tunnel but no loss of life. Partial operations were resumed within a few weeks, and all repairs were completed by May 1997.

There were 16,878 route km (10,488 mi) of railway in Great Britain in 2002, including 4,928 km (3,062 mi) of electrified track. Underground railway systems operate in London, Glasgow, and Liverpool. In London, the Underground consists of some 3,875 cars that operate over about 408 km (254 mi) of track, 167 km (104 mi) of which is underground. The Underground, the oldest part of which dates to 1863, operates 20 hours per day and is comprised of 248 stations on 11 lines that provide 2.7 million rides per day. In early 1997 the government proposed privatizing London's subway system because of lack of funds needed to restore the aging network. Capital investment has been diminished since the 1960s, resulting in increasing failures of signals and rolling stock and the deterioration of stations and track.

Great Britain has about 3,200 km (1,988 mi) of navigable inland waterways, mainly canals dating back to the prerailroad age. Great Britain has some 300 ports, including the Port of London, one of the largest in the world. Other major ports are Liverpool, Southampton, Hull, Clydeport (near Glasgow), the inland port of Manchester, and Bristol. The British merchant fleet of 212 ships, privately owned and operated, totaled 4,308,232 GRT in 2002, a decline from 14.3 million GRT in 1985, a result of a world recession in shipping and international competition. In an effort to curb the flagging of British merchant ships to less regulatory foreign nations, a British offshore registry program was initiated in the late 1980s. Under this program, merchant ships registered to the Isle of Man, Gibraltar, the Cayman Islands, and the Turks and Caicos Islands are entitled to fly the Red Ensign as if under the administration of the United Kingdom.

The Civil Aviation Authority was created in 1971 as an independent body responsible for national airline operations, traffic control, and air safety. In 2001, there were 470 airports, 334 with paved runways. International flights operate from London's Heathrow; Gatwick, London's second airport; Glasgow, in Scotland; Ringway (for Manchester); Aldergrove (for Belfast); and Elmdon (for Birmingham). The two government-owned airlines, British European Airways and British Overseas Airways Corp., were amalgamated in 1974 to form British Airways (BA). In 1984, BA was reestablished as British Airways PLC, a public limited company under government ownership, soon thereafter to be sold wholly to the public. There are a number of privately operated airlines, some of which operate air taxi services. British Caledonian, which maintained scheduled flights on both domestic and international routes, merged with British Airways in 1988. The Concorde, a supersonic jetliner developed jointly in the 1960s by the United Kingdom and France at a cost exceeding £1 billion, entered service between Heathrow and the US in 1976. In 2001, the United Kingdom's airlines performed 4,549 billion freight ton-km (2,826 billion freight ton-mi) of service, and carried 72,772,400 passengers on domestic and international flights.

## 12 HISTORY

The earliest people to occupy Britain are of unknown origin. Remains of these early inhabitants include the stone circles of Avebury and Stonehenge in Wiltshire. Celtic tribes from the Continent, the first known settlers in historical times, invaded before the 6th century BC. The islands were visited in ancient times by Mediterranean traders seeking jet, gold, pearls, and tin, which were being mined in Cornwall. Julius Caesar invaded in 55

BC but soon withdrew. In the 1st century AD, the Romans occupied most of the present-day area of England, remaining until the 5th century.

With the decline of the Roman Empire and the withdrawal of Roman troops (although many Romans had become Britonized and remained on the islands), Celtic tribes fought among themselves, and Scots and Picts raided from the north and from Ireland. Early raids by Angles, Saxons, and Jutes from the Continent soon swelled into invasions, and the leaders established kingdoms in the conquered territory while the native Celts retreated into the mountains of Wales and Cornwall. Although the Welsh were split into a northern and a southern group, they were not permanently subdued. In the 10th century, a Welsh king, Howel the Good (Hywel Dda), united Wales, codified the laws, and encouraged the Welsh bards.

Among the new English kingdoms, that of the West Saxons (Wessex) became predominant, chiefly through the leadership of Alfred the Great, who also had to fight a new wave of invasions by the Danes and other Norsemen. Alfred's successors were able to unify the country, but eventually the Danes completed their conquest, and King Canute (II) of Denmark became ruler of England by 1017. In 1042, with the expiration of the Scandinavian line, Edward the Confessor of Wessex became king. At his death in 1066, both Harold the Saxon and William, duke of Normandy, claimed the throne. William invaded England and defeated Harold in the Battle of Hastings, beginning the Norman Conquest (1066–70).

William I instituted a strong government, which lasted through the reigns of his sons William II and Henry I. The latter's death in 1135 brought a period of civil war and anarchy, which ended with the accession of Henry II (1154), who instituted notable constitutional and legal reforms. He and succeeding English kings expanded their holdings in France, touching off a long series of struggles between the two countries.

### The Magna Carta

Long-standing conflict between the nobles and the kings reached a climax in the reign of King John with the victory of the barons, who at Runnymede in 1215 compelled the king to grant the Magna Carta. This marked a major advance toward the parliamentary system. Just half a century later, in 1265, Simon de Montfort, earl of Leicester, leader of the barons in their opposition to Henry III, summoned the first Parliament, with representatives not only of the rural nobility but also of the boroughs and towns. In the late 13th century, Edward I expanded the royal courts and reformed the legal system; he also began the first systematic attempts to conquer Wales and Scotland. In 1282, the last Welsh king, Llewellyn ap Gruffydd, was killed in battle, and Edward I completed the conquest of Wales. Two years later, the Statute of Rhuddlan established English rule. The spirit of resistance survived, however, and a last great uprising against England came in the early 15th century, when Owen Glendower (Owain ap Gruffydd) led a briefly successful revolt.

Scotland was inhabited in early historic times by the Picts and by roaming bands of Gaels, or Celts, from Ireland. Before the Romans left Britain in the 5th century, Scotland had been converted to Christianity by St. Ninian and his disciples. By the end of the following century, four separate kingdoms had been established in Scotland. Norsemen raided Scotland from the 8th to the 12th century, and some settled there. Most of the country was unified under Duncan I (r.1034–40). His son, Malcolm III (r.1059–93), who gained the throne after defeating Macbeth, the murderer of his father, married an English princess, Margaret (later sainted), and began to anglicize and modernize the lowlands.

### Scotland United

Under David I (r.1124–53), Scotland was united, responsible government was established, walled towns (known as burghs) were developed, and foreign trade was encouraged. William the Lion (r.1165–1214) was captured by Henry II of England in 1174 and forced to accept the Treaty of Falaise, by which Scotland became an English fief. Although Scotland purchased its freedom from Richard I, the ambiguous wording of the agreement allowed later English kings to revive their claim.

When Alexander III died in 1286, Edward I of England, who claimed overlordship of Scotland, supported the claims of John Baliol, who was crowned in 1293. Edward began a war with Philip of France and demanded Scottish troops, but the Scots allied themselves with Philip, beginning the long relationship with France that distinguishes Scottish history. Edward subdued the Scots, put down an uprising led by William Wallace, executed Wallace in 1305, and established English rule. Baliol's heir was killed by Robert the Bruce, another claimant, who had himself crowned (1309), captured Edinburgh, and defeated Edward II of England decisively at Bannockburn in 1314. In 1328, Edward III signed a treaty acknowledging Scotland's freedom.

Under Edward III, the Hundred Years' War (1337–1453) with France was begun. Notable victories by Edward the Black Prince (son of Edward III), Henry IV, and Henry V led to no permanent gains for England, and ultimately the English were driven out of France. The plague, known as the Black Death, broke out in England in 1348, wiping out a third of the population; it hastened the breakdown of the feudal system and the rise of towns. The 14th century was for England a time of confusion and change. John Wycliffe led a movement of reform in religion, spreading radical ideas about the need for churchly poverty and criticizing many established doctrines and practices. A peasant rebellion led by Wat Tyler in 1381 demanded the abolition of serfdom, monopolies, and the many restrictions on buying and selling.

In 1399, after 22 years of rule, Richard II was deposed and was succeeded by Henry IV, the first king of the house of Lancaster. The war with France continued, commerce flourished, and the wool trade became important. The Wars of the Roses (1455–85), in which the houses of Lancaster and York fought for the throne, ended with the accession of Henry VII, a member of the Tudor family, marking the beginning of the modern history of England.

### The Tudors

Under the Tudors, commerce was expanded, English seamen ranged far and wide, and clashes with Spain (accelerated by religious differences) intensified. Earlier English dominance had not had much effect on Wales, but the Tudors followed a policy of assimilation, anglicizing Welsh laws and practices. Finally, under Henry VIII, the Act of Union (1536) made English the legal language and abolished all Welsh laws "at variance with those of England." In 1531, Henry separated the Anglican Church from Rome and proclaimed himself its head. After his death (1547), the succession to the throne became a major issue during the reigns of Edward VI (1547–53), Mary I (1553–58), and Elizabeth I (1558–1603).

In Scotland, James I (r.1406–37) had done much to regulate Scottish law and improve foreign relations. His murder in 1437 began a century of civil conflict. James IV (r.1488–1513) married Margaret Tudor, sister of Henry VII of England, a marriage that was ultimately to unite the crowns of England and Scotland.

French influence in Scotland grew under James V (r.1513–42), who married Mary of Guise, but the Scottish people and nobility became favorably inclined toward the Reformation, championed by John Knox. After James's death, Mary ruled as regent for her daughter, Mary, Queen of Scots, who had married the dauphin of

France, where she lived as dauphiness and later as queen. By the time Mary returned to Scotland (1561), after the death of her husband, most of the Scots were Protestants. A pro-English faction had the support of Queen Elizabeth I against the pro-French faction, and Mary, who claimed the throne of England, was imprisoned and executed (1587) by Elizabeth. Under Elizabeth, England in 1583 acquired its first colony, Newfoundland, and in 1588 defeated the Spanish Armada; it also experienced the beginning of a golden age of drama, literature, and music, among whose towering achievements are the plays of William Shakespeare.

### Oliver Cromwell and the Commonwealth

Elizabeth was succeeded by Mary's son, James VI of Scotland, who became James I of England (r.1603–25), establishing the Stuart line. Under James and his son, Charles I (r.1625–49), the rising middle classes (mainly Puritan in religion) sought to make Parliament superior to the king. In the English Civil War, which broke out in 1642, Charles was supported by the Welsh, who had remained overwhelmingly Catholic in feeling, but most Scots opposed him. Charles was tried and executed in 1649, and Oliver Cromwell as Protector ruled the new Commonwealth until his death in 1658. Cromwell ruthlessly crushed uprisings in Ireland and suppressed the Welsh. In 1660, Charles II, eldest son of the executed king, regained the throne. The Restoration was marked by a reaction against Puritanism, by persecution of the Scottish Covenanters (Presbyterians), by increased prosperity, and by intensified political activity; during this period, parliament managed to maintain many of its gains. Charles II's younger brother, James II (r.1685–88), who vainly attempted to restore Roman Catholicism, was overthrown in 1688 and was succeeded by his daughter, Mary II, and her Dutch husband, William III, who were invited to rule by parliament. By this transfer of power, known to English history as the Glorious Revolution, the final supremacy of parliament was established. Supporters of James II (Jacobites) in Scotland and Ireland, aided by France, sought to restore the deposed Stuart line, but their insurrection was suppressed in 1690 at the Battle of the Boyne, fought on the banks of the Irish river of that name.

In Wales, after Cromwell and the Commonwealth, the people began to turn to Calvinism; dissent grew, and such ministers as Griffith Jones, a pioneer in popular education, became national leaders. Most Welsh were won to the Calvinistic Methodist Church, which played a large part in fostering a nonpolitical Welsh nationalism. A long struggle to disestablish the Church of England in Wales culminated successfully in a 1914 act of Parliament.

### Colonial Expansion

English colonial expansion developed further in the 17th and 18th centuries, in competition with France and the Netherlands, while at the same time the English merchant marine gained commercial supremacy over the Dutch. The wars of the Grand Alliance (1688–97) and of the Spanish Succession (1701–14) consolidated Britain's overseas possessions. At home, to ensure Scottish allegiance to England and prevent possible alliances with inimical countries, the Act of Union of Scotland and England was voted by the two parliaments in 1707, thereby formally creating the kingdom of Great Britain under one crown and with a single Parliament composed of representatives of both countries. This union held, despite Jacobite uprisings in 1715 and 1745–46, the latter under Prince Charles (Bonnie Prince Charlie, or the Young Pretender, grandson of James II); his defeat at Culloden Moor was the last land battle fought in Great Britain. Scottish affairs eventually became the province of the secretary of state for Scotland, a member of the British cabinet. Nevertheless, a nationalist movement demanding independence for Scotland persists to this day.



The accession, in 1714, of George I of the House of Hanover (a great-grandson of James I) saw the beginning of the modern cabinet system, with the king leaving much of the governing to his ministers. The 18th century was a time of rapid colonial and mercantile expansion abroad and internal stability and literary and artistic achievement at home. Britain won control of North America and India in the Seven Years' War (ended in 1763 by the Treaty of Paris), which also established British supremacy over the seas; however, the American Revolution (1775–83) cost Britain its most important group of colonies. A few years later, British settlement of Australia and then of New Zealand became key elements in the spreading British Empire. Britain increased its power further by its leading role in the French Revolutionary Wars and in the defeat of Napoleon and French expansionist aims.

### Birth of the United Kingdom

In 1800, with the Act of Union of Great Britain and Ireland, the United Kingdom formally came into being. The conquest of Ireland had never been consolidated; the Act of Union followed an Irish rebellion in 1798 after the failure of a demand for parliamentary reform. But although the act established Irish representation in parliament, the Irish question continued to cause trouble throughout the 19th century. Absentee landlordism, particularly in the 26 southern counties, fostered poverty and hatred of the English. Moreover, there was a growing division of interest between these counties and the six counties of the north, popularly called Ulster, where, early in the 17th century, Protestant Scots and English had settled on land confiscated by the British crown after a rebellion. While the north gradually became Protestant and industrial, the rest of Ireland remained Catholic and rural. With the introduction of the first Home Rule Bill in 1886, the northern Irish, fearing domination by the southern Catholic majority, began a campaign that ended in the 1920 Government of Ireland Act, which established separate domestic legislatures for the north and south, as well as continued representation in the UK Parliament. The six northern counties accepted the act and became Northern Ireland. The 26 southern counties, however, did not accept it; in 1921, the Anglo-Irish Treaty was signed, by which these counties left the United Kingdom to become the Irish Free State (now the Irish Republic, or Éire), which was officially established in 1922.

### Queen Victoria's Reign

The Industrial Revolution, beginning in the second half of the 18th century, provided the economic underpinning for British colonial and military expansion throughout the 1800s. However, the growth of the factory system and of urbanization also brought grave new social problems. The enclosure of grazing land in the Scottish highlands and the industrialization of southern Wales were accompanied by extensive population shifts and led to large-scale emigration to the United States, Canada, and Australia. Reform legislation came slowly, although the spirit of reform and social justice was in the air. Slavery was abolished throughout the British Empire in 1834. The great Reform Acts of 1832, 1867, and 1884 enfranchised the new middle class and the working class. Factory acts, poor laws, and other humanitarian legislation did away with some of the worst abuses, and pressure mounted for eliminating others. The long reign of Queen Victoria (1837–1901) saw an unprecedented commercial and industrial prosperity. This was a period of great imperial expansion, especially in Africa, where at the end of the century Britain fought settlers of predominantly Dutch origin in the South African (or Boer) War. Toward the end of the century, also, the labor movement grew strong, education was developed along national lines, and a regular civil service was finally established.

### The Twentieth Century

The vast economic and human losses of World War I, in which nearly 800,000 Britons were killed, brought on serious disturbances in the United Kingdom as elsewhere, and the economic depression of the 1930s resulted in the unemployment of millions of workers. In 1931, the Statute of Westminster granted the status of equality to the self-governing British dominions and created the concept of a British Commonwealth of Nations. During the late 1930s, the government of Prime Minister Neville Chamberlain sought to avoid war by appeasing Nazi Germany, but after Hitler invaded Poland, the United Kingdom declared war on Germany on 3 September 1939. Prime Minister Winston Churchill led the United Kingdom during World War II in a full mobilization of the population in the armed services, in home defense, and in war production. Although victorious, the United Kingdom suffered much destruction from massive German air attacks, and the military and civilian death toll exceeded 900,000. At war's end, a Labor government was elected; it pledged to carry out a full program of social welfare "from the cradle to the grave," coupled with the nationalization of industry. Medicine was socialized, other social services were expanded, and several industries were put under public ownership. Complete nationalization of industry, however, was halted with the return to power of the Conservatives in 1951. During Labor's subsequent terms in office, from 1964 to 1970 and from 1974 to 1979, little further nationalization was attempted.

### Post-World War II Era

To a large extent, the United Kingdom's post-war history can be characterized as a prolonged effort to put the faltering economy on its feet and to cope with the economic, social, and political consequences of the disbandment of its empire. By early 1988, all that remained of what had been the largest empire in the world were 14 dependencies, many of them small islands with tiny populations and few economic resources. The United Kingdom has remained firmly within the Atlantic alliance since World War II. A founding member of NATO and EFTA, the United Kingdom overcame years of domestic qualms and French opposition when it entered the EC on 1 January 1973. After a Labor government replaced the Conservatives in March 1974, the membership terms were renegotiated, and United Kingdom voters approved continued British participation by a 67.2% majority in an unprecedented national referendum.

The principal domestic problems in the 1970s were rapid inflation, labor disputes, and the protracted conflict in Northern Ireland. Long-smoldering tensions between Protestants and Catholics erupted into open warfare after civil rights protests in 1969 by Catholics claiming discrimination and insufficient representation in the government. The Protestant reaction was violent, and the Irish Republican Army (IRA), seeking the union of Ulster with the Irish Republic, escalated the conflict by committing terrorist acts in both Northern Ireland and England. British troops, first dispatched to Belfast and Londonderry in August 1969, have remained there since.

On 30 March 1972, Northern Ireland's parliament (Stormont) was prorogued, and direct rule was imposed from London. Numerous attempts to devise a new constitution failed, as did other proposals for power sharing. In 1982, legislation establishing a new 78-member Northern Ireland Assembly was enacted. Elections were held that October, but the 19 Catholic members chosen refused to claim their seats. Meanwhile, the violence continued, one of the victims being the British war hero Earl Mountbatten of Burma, who was murdered while vacationing in Ireland on 27 August 1979. In October 1980, IRA members imprisoned in Ulster began a series of hunger strikes; by the time the strikes ended the following October 10 men had

died. In November 1985, the United Kingdom and the Irish Republic signed an agreement committing both governments to recognition of Northern Ireland as part of the United Kingdom and to cooperation between the two governments by establishing an intergovernmental conference concerned with Northern Ireland and with relations between the two parts of Ireland.

The “Downing Street Declaration” of December 1993 between British Prime Minister John Major and Irish Prime Minister Albert Reynolds over the future of Northern Ireland suggested that undisclosed contacts had been maintained for some time between the Irish Republican Army (IRA), Sinn Féin (the political wing of the IRA), and the British government. Tony Blair, who became prime minister in May 1997, also invested in normalization of relations between Ireland and the United Kingdom and in a long-term solution to the sectarian strife in Northern Ireland. In 1998, Ireland and the United Kingdom signed a peace agreement (Good Friday agreement) in which Ireland pledged to amend Articles 2 and 3 of the Irish constitution, which lay claim to the territory in the North. In return, the United Kingdom promised to amend the Government of Ireland Act.

In 1979, a Conservative government, headed by Margaret Thatcher, came to power with a program of income tax cuts and reduced government spending. Thatcher, who won reelection in 1983 and 1987, embarked on a policy of “privatizing”—selling to the private sector—many of the UK’s nationalized businesses. In foreign policy, the government’s most dramatic action was sending a naval task force to the Falkland Islands following Argentina’s occupation of the islands on 2 April 1982. After intense fighting, British administration was restored to the Falklands on 14 June.

Thatcher’s leadership was challenged by Conservative MPs in November 1990, and she failed to win the necessary absolute majority. Thatcher withdrew and was replaced by John Major. The Conservatives were returned to power in April 1992 with a reduced majority. Major’s government sought to redefine Conservative values with a renewed emphasis on law and order.

Labor Party leader Tony Blair was elected prime minister on 2 May 1997, ending 18 years of Conservative Party rule and signaling a major shift in British domestic policy (he was reelected in June 2001). Blair, who moved his party to the center of the political spectrum during the campaign, pledged initiatives to modernize Britain’s political structures. To that effect, he organized the creation of regional assemblies for Scotland and Wales and a municipal government for London. The regional parliaments were ratified by a referendum in late 1997 and began their first session in 1998. The city council for greater London came into being in mid-2000 and London’s first mayor in 15 years is Ken Livingstone, a left-wing Laborite not much liked by the middle-of-the-road Blairites.

As promised, Blair’s government also restructured the House of Lords to do away with the large number of hereditary peers. Only 75 of the 650 hereditary peers now sit in the House of Lords alongside 500 life peers, several senior judges, 26 bishops of the Church of England, and 15 deputy speakers.

The Blair government has also spent much time in tackling the Northern Ireland problem. The Good Friday Accord of 1998 envisioned a Catholic-Protestant administration and the gradual decommissioning of the IRA. The power-sharing government came into being in December 1999, but was suspended 11 weeks later because the IRA refused to make any disarmament commitments. A breakthrough occurred in May 2000 when the IRA agreed to allow leading international figures to inspect arms dumps and to begin the process of complete and verifiable disarmament. The Protestant party voted to revive the power-sharing arrangements on 27 May 2000 and the UK government promised to restore substantial authority to the new Northern Irish cabinet (this was accomplished on 29 May). However,

decommissioning of the IRA did not progress in early 2001; in July 2001, Ulster Unionist leader David Trimble resigned as first minister of the power-sharing government. In October 2002, Sinn Féin’s offices at Stormont (the Northern Ireland Assembly) were raided due to a large police investigation into intelligence-gathering operations on behalf of Irish republicans. On 14 October, devolution was suspended due to the spying allegations and direct rule from London was reimposed on Northern Ireland. Following talks hosted by Blair and Irish Prime Minister Bertie Ahern with all the parties dedicated to the Good Friday Accord, Blair stated in early 2003 that there would be elections in Northern Ireland that May. However, on 1 May 2003, Blair announced elections would be postponed indefinitely, due to the lack of evidence of peaceful intentions on behalf of the IRA.

Blair offered strong support for the US-led war on terrorism begun after the 11 September 2001 attacks on the US; British forces took part in the campaign in Afghanistan to oust the Taliban regime. The United Kingdom in 2002–03 also stood with the United States in its diplomatic and military efforts to force Saddam Hussein’s regime in Iraq to disarm itself of any biological, chemical, and nuclear weapons. In the international diplomatic struggle leading up to the war in Iraq that began on 19 March 2003, the United Kingdom stated it would vote for a UN Security Council resolution authorizing military action in Iraq, opposing Security Council members France, Germany, and Russia who did not support the use of force to disarm the Iraqi regime. British forces fought side-by-side with US forces, especially in southern Iraq. In the aftermath of the war, Prime Minister Blair indicated a central role must be played by the UN in the reconstruction of Iraq; in this he stood with other European leaders.

The United Kingdom remains one of three EU members not adopting European economic and monetary union and embracing the euro as its currency. The other two nations are Denmark and Sweden.

### 13 GOVERNMENT

The United Kingdom is a monarchy in form but a parliamentary democracy in substance. The sovereign—Elizabeth II since 1952—is head of state and as such is head of the legislature, the executive, and the judiciary, commander-in-chief of the armed forces, and temporal head of the established Church of England. In practice, however, gradually evolving restrictions have transmuted the sovereign’s legal powers into instruments for effecting the popular will as expressed through parliament. In the British formulation, the sovereign reigns but does not rule, for the sovereign is under the law and not above it, ruling only by approval of parliament and acting only on the advice of her ministers.

The United Kingdom is governed, in the name of the sovereign, by Her Majesty’s Government—a body of ministers who are the leading members of whichever political party the electorate has voted into office and who are responsible to parliament. Parliament itself, the supreme legislative authority in the realm, consists of the sovereign, the House of Lords, and the House of Commons. Northern Ireland had its own parliament (Stormont) subordinate to Westminster; however, because of civil strife in Ulster, the Stormont was prorogued on 30 March 1972, and direct rule was imposed from Westminster. After several abortive attempts over the next decade to devise a system of home-rule government acceptable to both Protestant and Catholic leaders, the 78-member Northern Ireland Assembly was established in 1982, but it was dissolved in 1986. As a result of the 1998 “Good Friday Agreement,” a Catholic-Protestant power-sharing government came into being in 1999. It was suspended in October 2002, and direct rule from London returned.

In 1979, proposals for the establishment of elected legislatures in Wales and Scotland failed in the former and, though winning a bare plurality, fell short of the required margin for approval (40% of all eligible voters) in the latter. Regional parliaments for Scotland and Wales were ratified by referendum in 1997, however, and they began their first sessions in 1998.

The sovereign formally summons and dissolves parliament. The House of Lords, whose size has been greatly reduced, used to count about 1,200 peers, including hereditary peers, spiritual peers (archbishops and bishops of the Church of England), and life peers (eminent persons unwilling to accept a hereditary peerage). Over the centuries, its powers have gradually been reduced; today, its main function is to bring the wide experience of its members into the process of lawmaking. As of 2003, the House of Commons had 659 members. A general election must be held every five years but is often held sooner. All British subjects 18 years old and over may vote in national elections; women won equal franchise with men in 1922. Citizens of Ireland resident in Britain may also vote, as may British subjects abroad for a period of five years after leaving the United Kingdom.

Each parliament may during its lifetime make or unmake any law. Parliamentary bills may be introduced by either house, unless they deal with finance or representation; these are always introduced in the Commons, which has ultimate authority for lawmaking. The House of Lords may not alter a financial measure nor delay for longer than a year any bill passed by the Commons in two successive sessions. Bills passed by both houses receive the traditional royal assent and become law as acts of parliament; no bill has received a royal veto for more than 200 years. The Speaker of the Parliament is the chief officer of the House of Commons. The Speaker is nonpartisan and functions impartially. The first female Speaker was elected in 1992.

Executive power is vested in the prime minister, who, though nominally appointed by the sovereign, is traditionally the leader of the majority party in parliament. The prime minister is assisted by ministers, also nominally appointed by the sovereign, who are chosen from the majority party and mostly from the Commons, which must approve the government's general policy and the more important of its specific measures. The most senior ministers, about 20, compose the cabinet, which meets regularly to decide policy on major issues. Ministers are responsible collectively to parliament for all cabinet decisions; individual ministers are responsible to parliament for the work of their departments. There are around 30 major central government departments, each staffed by members of the permanent civil service.

The British constitution is made up of parliamentary statutes, common law, and traditional precepts and practices known as conventions, all evolved through the centuries. Largely unwritten, it has never been codified and is constantly evolving.

## 14 POLITICAL PARTIES

UK parliamentary government based on the party system has evolved only during the past 100 years. Although the 18th-century terms "Whig" and "Tory" indicated certain political leanings, there was no clear-cut division in Parliament and no comprehensive party organization. Not until the 19th-century Reform Acts enfranchised millions of new voters did the modern party system develop. The British party system is based on the assumption that there are at least two parties in the Commons, each with a sufficiently united following to be able to form an alternative government at any time. This assumption is recognized in the fact that the largest minority party is officially designated as Her Majesty's Opposition; its leader, who designates a "shadow government," is paid a salary from public funds.

The main political parties represented in Parliament today are the Labor Party, the Conservative Party, and the Liberal Democrats (a coalition of the Liberal and Social Democratic parties, which voted in favor of a formal merger in 1988). From time to time during the past 50 years, other parties have arisen or have splintered off from the main groups, only to disappear or to become reabsorbed. Thus, the Fascists, who were of some significance before World War II, no longer put up candidates for elections, and the British Communist Party has not elected a candidate to Parliament since 1950.

Since World War I, the Labor Party has replaced the Liberal Party, a major force during the late 19th century, as the official opposition to a Conservative government. Founded in 1900 as the political arm of the already powerful trade union movement, the Labor Party was until 1918 a federation of trade unions and socialist groups and had no individual members. Today, its constituent associations consist of affiliated organizations (such as trade unions, cooperative societies, branches of socialist societies, and trade councils), as well as individual members organized into wards. Its program calls for public ownership of the means of production, improvement of the social and economic conditions of the people, defense of human rights, cooperation with labor and socialist organizations of other countries, and peaceful adjustment of international disputes. Between the world wars, it established two short-lived Labor governments while still a minority party, and then joined Churchill's coalition government in World War II. Returned to power with a huge majority in 1945, Labor instituted a program of full employment through planned production; established social services to provide adequate medical care, old age care, nutrition, and educational opportunities for all; began the nationalization of basic industries; and started to disband the empire by granting independence to India, Pakistan, Ceylon (now Sri Lanka), and Burma (Myanmar).

If the rapid rise of the Labor Party has been an outstanding feature of 20th-century British politics, the continuing vitality and adaptability of the Conservative Party, successor of the 18th-century Tories, has been no less remarkable. In foreign affairs, there has been little difference between the parties since World War II. Both have generally been firm allies of the United States, and both are pledged to the maintenance of NATO. The two parties have also been in general agreement about the country's social and economic needs. They differ mainly on the degree of state control to be applied to industry and commerce and on practical methods of application. Conservative emphasis is on free enterprise, individual initiative, and restraining the power of the unions. Even on these matters, however, pragmatism is the norm. In office, the Conservatives have let stand much of Labor's social program, and Labor, during Britain's economic difficulties in the late 1970s, imposed its own policy of wage restraints.

After World War II, Labor was in power during 1945–51, 1964–70, 1974–79, and since 1997; the Conservatives have held office during 1951–64, 1970–74, and 1979–97. Scottish National Party members were decisive in the fall of the Labor government in March 1979, after Labor was unable to enact its program for limited home rule (including elected legislatures) in Scotland and Wales. In elections of 3 May 1979, after a campaign fought mainly on economic grounds, Conservatives won 339 seats, with 43.9% of the vote, to Labor's 268 seats, with 36.9%, and Margaret Thatcher replaced James Callaghan as prime minister. Amid growing dissension, the Labor Party moved leftward in the early 1980s and broke with the Conservatives over defense policy, committing itself to the removal of all nuclear weapons from the United Kingdom and, in 1986, to the removal of US nuclear bases. The Social Democratic Party, founded in 1981 by moderate former Labor ministers, had by 30 September 1982 obtained 30 seats in Parliament, 27 of whose occupants were breakaway Labor members. In the elections of 9 June 1983, the

Conservatives increased their parliamentary majority, winning 397 seats and about 42% of the vote. The Labor Party captured 209 seats and 28% of the vote, its poorest showing in more than five decades. The Alliance of Liberals and Social Democrats won 25% of the vote but only 23 seats (Liberals 17, Social Democrats 6). Minor parties took 5% of the vote and 21 seats.

In the elections of 11 June 1987, the Conservatives won 376 seats and about 42% of the vote. The Labor Party won 229 seats and 31% of the vote. The Liberal-Social Democratic Alliance won nearly 23% of the vote but only 22 seats (Liberals 17, Social Democrats 5). Minor parties took about 4% of the vote and 23 seats: Ulster Unionist (Northern Ireland), 9; Democratic Unionist (Northern Ireland), 3; Scottish National Party, 3; Plaid Cymru (Welsh Nationalist), 3; Social Democratic and Labor Party (Northern Ireland), 3; Sinn Fein (Northern Ireland), 1; and Popular Unionist (Northern Ireland), 1.

The general election of 9 April 1992 resulted in a continuation of Conservative government under John Major with 42% of the vote and 336 seats. Labor followed with 34% of the vote and 271 seats. The Liberal Democrats took almost 18% of the vote, which netted 20 seats. Minor parties received 3% of the vote and 17 seats.

The Labor Party, under the leadership of Tony Blair, won a landslide victory in the general election of 1 May 1997, restoring it to power for the first time in 18 years. Of 659 possible seats, the Labor Party won 418 (43.1%), gaining 146 seats; the Conservative Party won only 165 seats (30.6%), losing 178 seats. The Liberal Democrats won 46 seats (16.7%), a gain of 26 seats since 1992 and the most seats held by the party since the 1920s. Other parties received 9.6% of vote, with the following representation after the 1997 elections: Ulster Unionist, 10; Scottish National, 6; Plaid Cymru, 4; Social Democrat and Labor, 3; Democratic Unionist, 2; Sinn Fein, 2; Independent, 2; and United Kingdom Unionist, 1.

The June 2001 election was called “the quiet landslide” following the major victory of the Labor Party in the 1997 election. Labor won 40.7% of the vote and secured 413 seats; the Conservative Party gained only one seat (166) and registered 31.7% of the vote. The Liberal Democrats gained six seats (52; 18.3% of the vote) from their historic high in 1997. Other parties received 9.3% of the vote, with the following representation after the 2001 election: Ulster Unionist, 6; Scottish National, 5; Democratic Unionist, 5; Plaid Cymru, 4; Sinn Fein, 4; Social Democrat and Labor, 3; and Independent, 1.

## 15 LOCAL GOVERNMENT

The scope of local governing bodies is defined and limited by acts of Parliament, which also makes certain ministers responsible for the efficient functioning of local services. In England, local government is supervised by the Department of the Environment; the regional parliaments supervise local governments in Wales and Scotland; and Northern Ireland, which was supposed to also have devolved powers, was placed back under the supervision of the Department of the Environment for Northern Ireland.

From 1965 to 1985, Greater London, the nation's largest metropolitan area, was subdivided into 32 London boroughs; the Greater London Council was the chief administrative authority. Under the Local Government Act of 1985, however, the Greater London Council was abolished and its functions were transferred to London borough and metropolitan district councils, excepting certain services (such as police and fire services and public transport) now administered by joint borough and council authorities. The Labor Party government returned local government to London. However, the mayor's office has a limited budget and few policy powers. The mayor's office coordinates relationship among the different boroughs and controls local transport (Underground).

Under the Local Government Act of 1972, the county system that had prevailed throughout the rest of England and Wales was replaced by a two-tier structure of counties and districts. In the 1990s, local governmental structures were reorganized, and single-tier administrations with responsibility for all areas of local government were reestablished. There are currently 46 unitary authorities in England, and 34 shire counties split into 239 non-metropolitan districts. These in turn are subdivided into electoral wards and districts. In 2000, a two-tier structure was reestablished for London; it has 32 boroughs and the City of London. Scotland is subject to the administration of both the UK government in Westminster and the Scottish executive in Edinburgh, and Wales is subject to the administration of Westminster and the National Assembly for Wales in Cardiff. Scotland is divided into 32 council areas, which in turn are divided into electoral wards and communities. Wales is subdivided into 22 unitary authorities, which in turn are divided into electoral divisions and communities. Northern Ireland is subject to the administration of both the UK government and the Northern Ireland Executive in Belfast. It is divided into 26 districts, which in turn are divided into electoral wards. As of 1 May 2003 the United Kingdom had 10,679 electoral wards/divisions. The minimum voting age in local elections is 18.

## 16 JUDICIAL SYSTEM

The United Kingdom does not have a single body of law applicable throughout the realm. Scotland has its own distinctive system and courts; in Northern Ireland, certain spheres of law differ in substance from those operating in England and Wales. A feature common to all UK legal systems, however—and one that distinguishes them from many continental systems—is the absence of a complete code, since legislation and unwritten or common law are all part of the “constitution.”

The main civil courts in England and Wales are 218 county courts for small cases and the High Court, which is divided into the chancery division, the family division, and the Queen's Bench division (including the maritime and commercial courts), for the more important cases. Appeals from the county courts may also be heard in the High Court, though the more important ones come before the Court of Appeal; a few appeals are heard before the House of Lords, which is the ultimate court of appeal for civil cases throughout the United Kingdom. In Scotland, civil cases are heard at the sheriff courts (corresponding roughly to the English county courts) and in the Outer House of the Court of Session, which is the supreme civil court in Scotland; appeals are heard by the Inner House of the Court of Session. Trial by jury in civil cases is common in Scotland but rare in the rest of the United Kingdom.

Criminal courts in England and Wales include magistrates' courts, which try less serious offenses (some 96% of all criminal cases) and consist most often of three unpaid magistrates known as justices of the peace, and 78 centers of the Crown Court, presided over by a bench of justices or, in the most serious cases, by a High Court judge sitting alone. All contested cases receive a jury trial. Cases involving persons under 17 years of age are heard by justices of the peace in specially constituted juvenile courts. Appeals may be heard successively by the Crown Court, the High Court, the Court of Criminal Appeal, and in certain cases by the House of Lords. In Scotland, minor criminal cases are tried without jury in the sheriff courts and district courts, and more serious cases with a jury in the sheriff courts. The supreme criminal court is the High Court of Justiciary, where cases are heard by a judge sitting with a jury; this is also the ultimate appeals court.

All criminal trials are held in open court. In England, Wales, and Northern Ireland, 12-citizen juries must unanimously decide the verdict unless, with no more than two jurors dissenting, the judge directs them to return a majority verdict. Scottish juries of

15 persons are permitted to reach a majority decision and, if warranted, a verdict of “not proven.” Among temporary emergency measures passed with the aim of controlling terrorism in Northern Ireland are those empowering ministers to order the search, arrest, and detention of suspected terrorists and permitting juryless trials for terrorist acts in Northern Ireland.

Central responsibility for the administration of the judicial system lies with the lord chancellor (who heads the judiciary and also serves as a cabinet minister and as speaker of the House of Lords) and the home secretary (and the secretaries of state for Scotland and for Northern Ireland). Judges are appointed by the crown, on the advice of the prime minister, lord chancellor, or the appropriate cabinet ministries.

The United Kingdom accepts the compulsory jurisdiction of the International Court of Justice with reservations.

## 17 ARMED FORCES

After the general demobilization that followed World War II, compulsory national service for all eligible males over 19 years of age was introduced. Call-ups of national servicemen ceased in 1960, but those who had been trained formed part of the general reserve until June 1974, when the national service legislation expired. Reserves now form part of the long-term reserve established in 1964, composed of all men under 45 years of age who have served in the regular army since 28 February 1964, plus the highly trained units of the territorial army volunteer reserve. Home service forces are stationed in northern Ireland, Gibraltar, and the Falkland Islands.

Total active army strength in 2002 was 114,800 including 8,050 women. Equipment included 594 main battle tanks, 575 armored infantry fighting vehicles, and 1,117 armored personnel carriers. The Navy had 42,350 personnel including 7,000 Royal Marines and 6,200 Naval Aviators. The British fleet included 16 submarines and 35 principal surface combatants. The Royal Air Force had a strength of 53,300 operating 332 combat aircraft. The United Kingdom had approximately 200 operational nuclear weapons.

Basing its defense policy on NATO, the British government in the 1970s reduced its overseas commitments. The defense budget for 2002 was \$31.7 billion, or 2.3% of GDP. British troops participate in a number of peacekeeping missions. The United States has 9,400 troops stationed in the United Kingdom.

## 18 INTERNATIONAL COOPERATION

The United Kingdom became a charter member of the UN on 24 October 1945; it participates in the ECE, ECLAC, and ESCAP, as well as in all the nonregional specialized agencies. The United Kingdom is a permanent member of the UN Security Council. The United Kingdom is also a member of the Council of Europe, the EU, NATO, and OECD; participates in the African Development Bank and the Asian Development Bank; belongs to many other inter-European, inter-African, inter-Commonwealth, and intergovernmental organizations; and is a member of the WTO. The headquarters of the IMO is in London.

The Commonwealth of Nations, an organization of 49 states, provides a means for consultation and cooperation, especially on economic matters, between the United Kingdom and its former colonies. Its main coordinating organ is the Commonwealth Secretariat, which was established in London in 1965 and is headed by a secretary-general appointed by the heads of the member governments. The heads of governments hold biennial meetings; meetings also are held by diplomatic representatives known as high commissioners and among other ministers, officials, and experts.

## 19 ECONOMY

The United Kingdom, one of the most highly industrialized countries in the world, lives by manufacture, trade, and financial

and commercial services. Apart from coal and low-grade iron ore, some timber, building materials, hides and skins, and natural gas and North Sea oil, it has few natural resources. Agriculture provides 60% of the food needed with only 1% of the labor force. The remainder of the UK's food and most raw materials for its industries have to be imported and paid for largely through exports of manufactures and services. The United Kingdom is in fact one of the world's largest markets for food and agricultural products and the fifth-largest trading nation. Vast quantities of imported wheat, meat, butter, livestock feeds, tea, tobacco, wool, and timber have been balanced by exports of machinery, ships, locomotives, aircraft, and motor vehicles. The pattern of exports is gradually changing, however. Post World War II reduction in output of textiles—once a leading British export—due to competition from Asia, and in coal output, because of competition from oil and new mines in Europe, is being offset by industries such as electronics and chemicals. A major source of earnings is the variety of commercial services that stem from the UK's role as central banker of the sterling area. Shipping, income from overseas investment, insurance, and tourism also make up an important part of the economy.

Since the 1979–81 recession, the British economy has posted steady gains. Between 1983 and 1990, real GDP increased by nearly 25%. Individual productivity increased by 14% during the 1980–85 period and another 25% during 1985–90. In less than a decade, the United Kingdom went from heavy dependence on imported oil to energy self-sufficiency, but this ended in 1989, although the UK's dependence on energy imports in the 1990s was far lower than in the past. Inflation fell from 18% in 1980 to an annual rate of 1.9% by July 1987. However, it averaged 6.3% a year during 1988–92 before falling to 1.6% in 1993. It fell in both 1991 and 1992 but increased 2.1% in 1993. From 1994 to 1997, annual growth was over 3% (3.125%), but fell an average 2.5% 1998 to 1999. An increase to 3.1% in 2000 was slowed to 2% and 1.6% in the global economic slowdown of 2001 and aftereffects of the 11 September 2001 terrorist attacks on the United States. Inflation, which stood at 2.7% in 1998, had fallen to 2.2% in 2002. After falling to 5.8% in 1990, the unemployment rate crept up to 10.4% in 1993 but declined to 8% in 1995, and 7.5% in 1998. In 2002, estimated unemployment was 5.2%.

Between 1979 and 1991, the government privatized 46 major companies, as well as a number of subsidiaries of nationalized industries and other businesses. This represented 65% of the state-owned industrial sector. Among the major companies privatized were British Telecom, British Gas, British Steel, British Airways, British Aerospace, Rolls-Royce, Austin Rover, Cable and Wireless, and ICL.

## 20 INCOME

The US Central Intelligence Agency (CIA) reports that in 2002 the United Kingdom's gross domestic product (GDP) was estimated at \$1.52 trillion. The per capita GDP was estimated at \$25,300. The annual growth rate of GDP was estimated at 1.6%. The average inflation rate in 2002 was 2.1%. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange. It was estimated that agriculture accounted for 1% of GDP, industry 25%, and services 74%.

The World Bank reports that in 2001 per capita household consumption (in constant 1995 US dollars) was \$15,572. Household consumption includes expenditures of individuals, households, and nongovernmental organizations on goods and services, excluding purchases of dwellings. It was estimated that for the same period private consumption grew at an annual rate of 4%. Approximately 14% of household consumption was spent on food, 9% on fuel, 3% on health care, and 3% on

education. The richest 10% of the population accounted for approximately 27.7% of household consumption and the poorest 10% approximately 2.3%. It was estimated that about 17% of the population had incomes below the poverty line.

## 2<sup>1</sup>LABOR

The total working population of the United Kingdom in 2002 was 29.7 million. In 1999, services accounted for 74% of the labor force, with industry 25% and agriculture only 1%. Between 1983 and 1992 there was a substantial shift in employment from previously dominant manufacturing to service industries. Employment in industry, which had been 7,788,000 in 1983, was down to 4,986,000 in 1998. The official unemployment rate was 5.2% in 2002.

The Employment Relations Act protects union organization, the statutory right to strike, and minimum employment standards. Nearly all trade unions of any size are affiliated with the Trades Union Congress (TUC), the national center of the trade union movement. Founded in 1868, the TUC was one of the prime movers in the formation of the International Confederation of Free Trade Unions (ICFTU). The TUC is the recognized channel of consultation between government departments and the unions on general labor matters. There is a separate Scottish Trades Union Congress. The legal status of the trade unions is defined by the Trade Union and Labor Relations Act of 1974. Restrictions on the power of the trade unions are embodied in the Employment Acts of 1980 and 1982 and in the Trade Union Act of 1984. About one third of the workforce is covered by collective bargaining agreements.

The standard workweek ranges between 35 and 40 hours. Besides the statutory public holidays, most employees have at least four weeks' annual vacation with pay. Children under the age of sixteen are not permitted to work unless it is part of an educational experience. The minimum wage for adults was \$5.95 in 2002.

## 2<sup>2</sup>AGRICULTURE

Agriculture is intensive and highly mechanized, producing about 60% of the UK's food needs. Agriculture's importance has declined in recent years; including forestry and fishing, it contributed about 1% to the GDP in 2001, down from 2.3% in 1971. In 2001, agricultural products accounted for 4.9% of exports and there was an agricultural trade deficit of almost \$13.5 billion (second after Japan). Agriculture engaged 1% of the labor force in 1999.

Just over 26% of Great Britain's land area was devoted to crops in 1998. There were about 240,000 holdings, down from 422,000 in the late 1960s. In Great Britain roughly 70% of the farms are primarily or entirely owner-occupied, but in Northern Ireland nearly all are.

Most British farms produce a variety of products. The type of farming varies with the soil and climate. The better farming land is generally in the lowlands. The eastern areas are predominantly arable, and the western predominantly for grazing. Chief crops (with estimated 1999 production in tons) were barley, 6,510,000; wheat, 14,870,000; potatoes, 7,100,000; sugar beets, 10,228,000; oats, 540,000; and oilseed rape, 1,667,000. Mechanization and research have greatly increased agricultural productivity; between 1989 and 1999, for example, production of wheat per hectare rose 12%; of barley, 7%; and of sugar beets, 32%. Consequently, the United Kingdom in the 1990s produced 60% of its total food needs, whereas prior to World War II (1939-45), it produced only about 33%, and in 1960, less than half. The estimated number of tractors in the United Kingdom in 1998 was 500,000, as against 55,000 in 1939; some 47,000 combines were also in use.

## 2<sup>3</sup>ANIMAL HUSBANDRY

Livestock continues to be the largest sector of the farming industry. The United Kingdom raises some of the world's finest pedigreed livestock and is the leading exporter of pedigreed breeding animals. Most of the internationally famous breeds of cattle, sheep, hogs, and farm horses originated in the United Kingdom. In England and Wales, fattening of animals for food is the predominant activity in the southeast, the east, and the Midlands, while stock rearing is widespread in northern England and in Wales. In Scotland, dairying predominates in the southwest, cropping and fattening in the east, and sheep raising in the hilly regions. Northern Ireland's livestock industry provides 90% of its agricultural income.

In 2001, there were about 10,600,000 head of cattle (including two million dairy cows), 36,697,000 sheep and goats, and 5,845,000 hogs. There are also an estimated 167 million chickens. Output of livestock products for 2001 included 645,000 tons of beef and veal, 258,000 tons of mutton and lamb, 777,000 tons of pork, 1,565,000 tons of poultry, 14,709,000 tons of milk, 126,000 tons of butter, and 385,000 tons of cheese.

The most highly reputed beef breeds are Hereford and Aberdeen Angus; distinguished dairy breeds are Guernsey, Jersey, and Ayrshire. To ensure sound breeding, there is compulsory licensing of bulls. On 20 March 1996 the British government reported concern over a possible link between bovine spongiform encephalopathy (BSE, or the so-called "Mad Cow" disease) in cattle and a new variant of Creutzfeldt-Jakob disease in humans. BSE was first identified in the United Kingdom in 1986. Transmission of BSE to cattle occurs from contaminated meat and bone meal in concentrate feed, with sheep or cattle as the original source. The United Kingdom is the only country with a high incidence of the disease, and the epidemic was mainly due to recycling affected bovine material back to cattle before a ban on ruminant feed began in July 1988. As a result, consumption of beef dropped and many countries banned imports of British cattle and beef.

## 2<sup>4</sup>FISHING

Lying on the continental shelf, the British Isles are surrounded by waters mainly less than 90 m (300 ft) deep, which serve as excellent fishing grounds and breeding grounds for fish. Small fishing villages are found all along the coast, but the modern large-scale industry is concentrated at Hull, Grimsby, Fleetwood, Yarmouth, and Lowestoft in England. The major herring landings are made at numerous east coast ports of Scotland, notably Aberdeen. The fishing industry has been declining, but it remains important to Scotland, which accounts for 67% by weight of all fish landings in the United Kingdom; England and Wales account for 30% and Northern Ireland for 3%.

The deep-sea fleet has declined in recent years, primarily because the adoption by most nations, including the United Kingdom, of a 200-mi fishery limit decreased the opportunity to fish in distant waters. Some of the larger vessels have, instead, turned to fishing for mackerel and herring off the west coast. The British fishing fleet had 9,983 vessels with 239,783 GRT at the start of 1996. Landings of all types of fish by UK fishing vessels totaled 746,291 tons in 2000. Leading species caught that year were mackerel (193,638 tons), herring (82,658 tons), and haddock (50,644 tons). The United Kingdom exported \$1,258 million in fishery products in 2000, while imports were valued at \$2,183 million.

Salmon farming takes place primarily in Scotland; total UK production of farmed salmon in 2001 was around 138,400 tons. Domestic demand for seafood grew during 1996-98 due to public concerns over beef tainted by bovine spongiform encephalopathy (BSE, or Mad Cow disease).

## 25 FORESTRY

The estimated total area of woodland in 2001 was 2.79 million hectares (6.89 million acres), or over 10% of Great Britain's land area. Roughly 40% of the area is in England, 49% in Scotland, and 11% in Wales. State-owned forests cover 33% of the forest area, and 67% are in the private sector. The principal species in the forest area are spruces (34%), pines (22%), oak (9%) and larch (8%), with smaller amounts of beech, ash, birch, and fir. The lumber industry employs about 55,000, and supplies the United Kingdom with 13% of its timber demand. Because of the high proportion of unproductive woodland, largely a legacy of overfelling during the two world wars, major efforts have been directed toward rehabilitation.

The timber cut in 2001 yielded an estimated 10,430,000 cu m (368 million cu ft) of roundwood. In 2000, UK sawmills cut 3.94 million cu m (139 million cu ft) of logs to produce 2.16 million cu m (76.2 million cu ft) of sawn lumber. Except for the two wartime periods, home woodlands have made only a limited contribution in this century to the national requirements in wood and wood products, almost 90% of which are met by imports. The UK imports softwood lumber from Canada, hardwood lumber and softwood plywood from the United States, hardwood veneer from Germany, hardwood plywood from Russia, and particleboard from Belgium.

The Forestry Commission promotes development of afforestation and increased timber production. Clearance of forests for agriculture began in the Neolithic and Bronze Ages, so that by the time of the Domesday survey in 1086, only 15% of England was forested. There was a considerable degree of reforestation in the second half of the 20th century.

## 26 MINING

Although the United Kingdom had comparatively few mineral resources (except for North Sea oil), it was a significant player in the world mining and mineral-processing industries, because of the extensive range of UK companies that had interests in the international mineral industry. An organized coal-mining industry has been in existence for over 300 years—200 years longer than in any other country—and has traditionally been by far the most important mineral industry. Mine production of ferrous and nonferrous metals has been declining for more than 20 years, as reserves became depleted, necessitating imports for the large and important metal processing industry. Metals, chemicals, coal, and petroleum were among the country's leading industries in 2002, and fuels and chemicals ranked second and third, respectively, among export commodities. In 2000, mining production was 45% higher than in 1990. The industrial minerals sector has provided a significant base for expanding the extractive industries, and companies had a substantial interest in the production of domestic and foreign aggregates, ball clay, kaolin (china clay), and gypsum. The United Kingdom was a leading world producer and exporter of ball clay and kaolin; operations were mainly in Dorsetshire and Devonshire.

Other minerals extracted in 2000 included gravel and sand (common and industrial), 102.5 million tons; crushed limestone, 86 million tons; crushed dolomite, 14 million tons, down from 18.3 million tons in 1997; crushed igneous rock, 50 million tons; kaolin (dry weight sales), 2.42 million tons; ball and pottery clay (dry weight sales), 1 million tons, up from 866,000 in 1996; potash, 500,000 tons, down from 608,400 in 1998; dimension sandstone, 300,000 tons; gypsum and anhydrite, 1.5 million tons, down from 2 million tons in 1998; fluorspar (two-thirds acid grade), 35,000 tons, down from 65,000 tons in 1998; and crushed chalk, 10 million tons. Lead and hematite iron ore were worked on a small scale; the output of iron ore (gross weight) dropped from 916,000 tons in 1980, to 1,033 in 2000. Alumina was produced from imported bauxite. The United Kingdom's last

commercial tin mine, South Crofty, in Cornwall, closed in 1998, was sold, and aimed to reopen in 2001—its capacity was 1.8 million tons per year. A small tin mining operation produced cassiterite for tourist jewelry and ornaments. Zinc and tungsten were no longer mined. In 2000, the United Kingdom also produced barite and witherite, bromine, hydraulic cement, clays (including fire clay, fuller's earth, and shale), feldspar (china stone), quicklime and hydrated lime, nitrogen, rock and brine salt, sodium compounds, slate, sulfur, pyrophyllite and soapstone talc, and titania. Most slate mining was in northern Wales, and the Penrhyn quarry, at Bethesda, was considered the world's largest, and has been in operation for more than 400 years. No calcite stone was produced in 1999 and 2000.

Most nonfuel mineral rights in the United Kingdom were privately owned, except gold and silver, the rights to which were vested in the royal family and were known as Crown Rights. Onshore exploration activities were to be directed mainly toward precious metals, mainly gold. In Northern Ireland, the rights to license and to work minerals were vested in the state.

## 27 ENERGY AND POWER

Coal supplied 15.7% of the UK's primary energy consumption in 1999; oil, 35%; natural gas, 34.9%; and hydroelectric and other renewable sources supplied the rest.

The United Kingdom is one of the largest oil producers in the world, thanks to its offshore oil reserves in the North Sea. Proven reserves totaled five billion barrels as of 2002. Oil fields comparable in size to those of the Middle East were first discovered in the British sector of the North Sea in October 1970. Because of delays in pipeline and platform construction, the first oil was not piped ashore until October 1975. Production reached 2.75 million barrels per day in 2000; the output has gradually increased since 1991. Natural gas was first discovered on the continental shelf in 1965, and production began in 1967. In early 2002, natural gas reserves were estimated at over 758.7 billion cu m. Production in 1999 was 98.8 billion cu m, among the highest in the world. Continuing the ongoing restructuring of the UK's oil industry, the merger of BP Amoco with Atlantic Richfield (Arco) was finalized in 2000, creating the third-largest publicly traded oil and gas company in the world. The United Kingdom is simultaneously a major importer and exporter of oil. Since North Sea oil is a light, high-quality oil, the UK exports this oil and imports crude oils of various qualities. Violent storms can adversely affect production.

Nationalized in 1947, the electricity supply industry, which is the largest consumer of primary fuel, is under the jurisdiction of the Ministry of Power. In England and Wales, electricity is generated and transmitted by the Central Electricity Generating Board and distributed by 12 area electricity boards under the supervision of the Electricity Council. Scotland and Northern Ireland have separate electricity authorities. A national grid of main transmission lines supplies electrical power to most of the country. The Energy Act of 1983 allowed competition from private generators of electricity. In 1991, the United Kingdom signed the European Energy Charter, which promotes cooperation and an open energy market between EC members, the US, Japan, and Australia.

The production and consumption of coal have decreased greatly since the late 1980s, when coal supplied two-thirds of the UK's thermal generating stations. As of 2002, that share had shrunk to less than half and it was expected to fall below one-third by 2010. Coal production declined from 119 million tons in 1986 to 40.9 million tons in 1999.

In 2002 the United Kingdom was Europe's third-largest electricity market. As of 1999 the privatization of the British electricity sector, begun in the early 1990s, was complete, with small as well as large customers able to choose their own suppliers. Deregulation of utilities has increased competition for

power sales in Britain. As a result of the restructuring, the United Kingdom had 27 power companies as of 2002. The United Kingdom was the first country to have a nuclear power station supplying electricity to a national network (its first station was Calder Hall, in Cumberland, opened in 1956). By the end of 1995, combined nuclear generating capacity from 35 reactors was 12,908 MW. Total electricity generated by power stations in the United Kingdom in 2000 amounted to 351,900 million kWh, of which 73.3% was from fossil fuels, 1.5% from hydropower, 23% from nuclear power, and the rest from other renewable sources. Consumption of electricity in 2000 was 345 billion kWh. Total installed capacity in 2001 was 76,304 kW. As much as 10% of Britain's electricity needs could be satisfied by wind power, according to the government's renewable energy research program. Tidal power, passive solar design, and biofuels also show promise.

## 28 INDUSTRY

The United Kingdom is one of the most highly industrialized countries in the world. The industrial sector of the economy declined in relative importance after 1973, because of the worldwide economic slowdown; however, output rose in 1983 and 1984 and in 1985 was growing at an annual rate of 3%. Manufacturing accounted for 25.1% of GDP in 1985 and 22.3% in 1992. Since World War II, some traditional industries have markedly declined—e.g., cotton textiles, steel, shipbuilding, locomotives—and their place has been taken by newer industries, such as electronics, offshore oil and gas products, and synthetic fibers. In the chemicals industry, plastics and pharmaceuticals have registered the most significant growth. The United Kingdom had a total of 11 oil refineries in 2002, with a capacity of 1,784,000 barrels per day.

The pattern of ownership, organization, and control of industry is varied; public, private, and cooperative enterprises are all important. The public sector plays a significant role; however, since 1979 the government has sold off a number of companies and most manufacturing is conducted by private enterprise. Although the average firm is still fairly small, there has been a trend in recent years toward the creation of larger enterprises.

Metals, engineering, and allied industries—including steel, nonferrous metals, vehicles, and machinery—employ nearly half of all workers in manufacturing. The United Kingdom's automotive industry produced 1,685,238 automobiles in 2001, a 7% decline from 2000. It also produced 14,682 heavy trucks in 2000, a 10% increase over 1999. Britain's aerospace industry is among the world's foremost. Rolls-Royce, which was privatized in 1987, is one of the principal aero-engine manufacturers in the world. British Aerospace, nationalized during 1978–80 but now privately owned again, manufactures civil aircraft, such military aircraft as the Harrier and the Hawk advanced trainer, and guided weapons, including the Rapier ground-to-air missile.

While the relative importance of the textile and clothing industries has declined considerably since World War II, the United Kingdom continues to produce high-quality woolen textiles. Certain smaller industries are noted for the quality of their craftsmanship—e.g., pottery, jewelry, goldware, and silverware. Other sectors are the cement industry (which focuses on the manufacture of Portland cement, a British invention); the rubber industry, the world's oldest; paper industries; and leather and footwear. The industrial sector's 25% share of GDP in 2000 continues to demonstrate the importance of industry to the development of the British economy. The industrial production growth rate declined in 2001, however, by 1.6%. Two factors leading to the decline in British industrial production in the early 2000s were the global recession that began in 2001, and the outbreak of foot and mouth disease in the United Kingdom that year. In 2001, demand for telecommunications equipment fell, which led to large manufacturing job losses in this sector.

## 29 SCIENCE AND TECHNOLOGY

Great Britain, preeminent in the Industrial Revolution from the mid-18th to the mid-19th century, has a long tradition of technological ingenuity and scientific achievement. It was in the United Kingdom that the steam engine, spinning jenny, and power loom were developed and the first steam-powered passenger railway entered service. To British inventors also belongs credit for the miner's safety lamp, the friction match, the cathode ray tube, stainless steel, and the first calculating machine. One of the most famous scientific discoveries of the 20th century, the determination of the double-helix structure of the deoxyribonucleic acid (DNA) molecule, took place at the Laboratory of Molecular Biology at Cambridge University. In February 1997 the first successful cloning of an animal from an adult (resulting in "Dolly" the lamb) was performed at the Roslin Institute near Edinburgh, Scotland's leading animal research laboratory. The United Kingdom is also in the forefront of research in radio astronomy, laser holography, and superconductivity.

The total national expenditure for research and development in 1987–97 was 1.9% of GNP; 2,448 scientists and engineers and 1,017 technicians per one million people were engaged in research and development. The leading government agency for supporting science and technology is the Ministry of Defense, which plays an important role in both the UK's national security and its role in NATO. British industry funds half of all national research and development, and government-industry cooperation in aerospace, biotechnology and electronics have opened new frontiers in science. In 1998, high-tech exports were valued at \$64.5 billion and accounted for 28% of manufactured exports.

The largest issue facing British scientists, engineers and technicians in the 1990s is the challenge of providing new technological innovations in the global economy. In 1993, a government white paper, *Realizing our Potential*, called for the most sweeping changes in British science and technology since World War II. Among the changes called for in this white paper is the creation of a "technology forecasting program" which will allow scientists and engineers from all over Great Britain to have a more direct say in setting national science and technology priorities. It is likely that many of the recommendations from the white paper will be incorporated into national science and technology priorities, including the technology forecasting program, over time.

The most prestigious scientific institution in the United Kingdom is the Royal Society, founded in 1660 in London. The British Association for the Advancement of Science, headquartered in London, promotes public understanding of science and technology.

## 30 DOMESTIC TRADE

London is the leading wholesale and importing center, accounting for more than half the total wholesale turnover. Other important distribution centers are Liverpool, Manchester, Bristol, Glasgow, and Hull.

Supermarkets have hurried to diversify into other businesses recently because of competition, falling prices, and a mature domestic market. In February 1997, J. Sainsbury PLC, the UK's second-largest supermarket chain, began its own bank in a joint venture with Bank of Scotland PLC. As of 2002, franchises reported about 33% of total retail sales. Direct marketing is common. A value-added tax of 17.5% applies to most goods and services.

Normal banking hours are 9:30 AM to 3:30 PM, Monday through Friday, except for Thursday, when the banks stay open later. Business hours in London are 9:30 AM to 5 PM, Monday through Saturday; shops in certain areas may be open to 7:30 one night a week, usually Wednesday or Thursday. Outside of



London, the shops of each town or village may close for a half or full day at midweek. Sunday shopping is becoming increasingly available.

### 31 FOREIGN TRADE

The United Kingdom, the world's fifth-largest trading nation, is highly dependent on foreign trade. It must import almost all its copper, ferrous metals, lead, zinc, rubber, and raw cotton; most of its tin, raw wool, hides and skins, and many other raw materials; and about one-third of its food.

The United Kingdom's major export commodities are manufactured items and crude petroleum. The top 10 exports are as follows:

	% OF COUNTRY TOTAL
Telecommunications equipment	5.8
Crude petroleum	5.6
Automobiles	5.1
Automatic data processing equipment	5.0
Medicinal and pharmaceutical products	3.9
Aircraft	3.6
Engines and motors	3.5
Transistors and valves	3.3
Professional and scientific measuring equipment	3.0
Motor vehicle parts and accessories	2.6

In 2000 the United Kingdom's imports were distributed among the following categories:

Consumer goods	18.1%
Food	7.2%
Fuels	4.4%
Industrial supplies	22.8%
Machinery	29.5%
Transportation	17.0%
Other	1.0%

Principal trading partners in 2000 (in millions of US dollars) were as follows:

COUNTRY	EXPORTS	IMPORTS	BALANCE
United States	41,969	39,485	-2,484
Germany	30,471	40,595	-10,124
France	25,606	25,666	-60
Netherlands	21,080	22,049	-969
Ireland	18,516	13,541	4,975
Belgium	14,061	14,786	-725
Italy	11,779	14,083	-2,304
Spain	11,760	8,913	2,847
Japan	5,386	15,755	-10,369
China (inc. Hong Kong)	3,881	16,803	-12,922

### 32 BALANCE OF PAYMENTS

Throughout the 1960s, revaluations of other currencies adversely affected the pound sterling. Large deficits in the balance of payments appeared in 1964 and 1967, leading to a devaluation in November 1967. Another run on sterling prompted a decision to let the pound float on 23 June 1972. The pound then declined steadily, dropping below a value of \$2.00 for the first time on 9 March 1976. The oil crisis and the rise in commodity prices in 1974 were even harsher blows to the UK economy. Increasing unemployment, the worldwide recession, and a large budgetary deficit placed the government in an extremely difficult position, since replenishment of currency reserves cost more in terms of sterling, and the need to curb inflation prevented expansion in the economy. Borrowing from the oil-producing states and the EU helped finance the deficits, but a further approach to the IMF became necessary. During the late 1970s, the UK's visible trade balance was generally negative, although surpluses on invisibles sometimes were sufficient to produce a surplus in current account. Increased North Sea oil exports helped produce

substantial trade surpluses in 1980-82. The United Kingdom has run a deficit in visible trade since 1983, reaching a peak of \$47 billion in 1989, as consumer demand for imported goods ballooned. As recession took hold, imports fell, reducing the visible trade deficit dramatically in 1991. The devaluation of the pound, following the UK's late 1992 withdrawal from the EU's Exchange Rate Mechanism, increased the cost of imports at the end of 1992. However, the sterling's trade-weighted exchange rate index stabilized by 1995. In recent years, the export-oriented manufacturing sector has been challenged by an overvalued exchange rate. The United Kingdom is a major overseas investor (especially in the US) and has an extremely important service sector, dominated by banking and insurance, which consistently generates invisible trade credits.

The US Central Intelligence Agency (CIA) reports that in 2002 the purchasing power parity of the United Kingdom's exports was \$286.3 billion while imports totaled \$330.1 billion resulting in a trade deficit of \$43.8 billion.

The International Monetary Fund (IMF) reports that in 2001 the United Kingdom had exports of goods totaling \$276 billion and imports totaling \$324 billion. The services credit totaled \$111 billion and debit \$95 billion. The following table summarizes the United Kingdom's balance of payments as reported by the IMF for 2001 in billions of US dollars.

Current Account	-29
Balance on goods	-48
Balance on services	16
Balance on income	13
Current transfers	-10
Capital Account	2
Financial Account	23
Direct investment abroad	-34
Direct investment in the United Kingdom	63
Portfolio investment assets	-134
Portfolio investment liabilities	64
Other investment assets	-259
Other investment liabilities	312
Net Errors and Omissions	-1
Reserves and Related Items	4

### 33 BANKING AND SECURITIES

The United Kingdom is known throughout the world for its expertise in the field of banking, ranking third in the world after New York and Tokyo. Most activity takes place in the City of London, which has the greatest concentration of banks and the largest insurance market in the world. Until the Labour government of Tony Blair disengaged it from the Treasury, The Bank of England, established in 1694 as a corporate body and nationalized in 1946, held the main government accounts, acted as government agent for the issue and registration of government loans and other financial operations, and was the central note-issuing authority, with the sole right to issue bank notes in England and Wales (some banks in Scotland and Northern Ireland have limited note-issuing rights). It administered exchange control for the Treasury and is responsible for the application of the government's monetary policy to other banks and financial institutions. After its separation from the Treasury, the Bank of England retained the power to establish interest rates, while the Treasury continued to reign in public spending.

The banks handling most domestic business are mainly limited liability companies. The four major clearing commercial banking groups are Barclays, Lloyds, Midland, and National Westminster. These banks carry out most of the commercial banking in England and Wales. In Scotland, which has its own clearing system, there are three clearing banks: the Bank of Scotland, the Clydesdale Bank, and the Royal Bank of Scotland. Other institutions, notably the building societies, have begun to

compete with the clearing banks by providing current and deposit account facilities.

There are concerns that Frankfurt, Germany, will develop as the major financial center in the EU. The City of London's role in this context is under threat mainly because Frankfurt is the site of the European Central Bank, which controls monetary policy for the euro-area EU states.

The National Savings Movement, started in 1916, encourages widespread savings investment by small depositors in trustee savings banks and the National Savings Bank (formerly known as the Post Office Savings Bank), the largest organization of its kind in the world, with about 20,000 in post offices. Merchant banks are of great importance in the financing of trade, both domestic and overseas. In addition, about 275 overseas banks are directly represented in London.

After the "Big Bang"—the deregulation of the UK's financial markets—the Financial Services Act, which became law in November 1986, set out a system of self-regulating organizations (SROs) to oversee operations in different markets under the overall control of an umbrella body, the Securities and Investment Board (SIB). In 1996 there were five SROs covering the main financial activities, and since April 1988 any firm conducting investment business must have authorization to do so from the appropriate SRO. The International Monetary Fund reports that in 2001, M2—an aggregate equal to currency and demand deposits plus savings deposits, small time deposits, and money market mutual funds—was \$1,626.6 billion. The money market rate, the rate at which financial institutions lend to one another in the short term, was 5.08%.

In 1762, a club of securities dealers was formed in London to fix rules for market transactions, and in 1773 the first stock exchange was opened in London. In 1801, the London Stock Exchange was constructed on part of its present site; since that time, it has provided a market for the purchase and sale of securities and has played an important part in providing new capital for industry. Some 2,600 companies were listed in the mid-1990s, with a total market capitalization of £4.8 trillion. The Stock Exchange opened to international competition in October 1986, permitting wider ownership of member firms. Minimum rates of commission on stock sales were abolished. In April 1982, the London Gold Futures Market began operations; it is the only market in Europe making possible worldwide, round-the-clock futures dealings in the metal.

### 34 INSURANCE

London is the leading international insurance center. Lloyd's, the world-famous society of private insurers, was originally established in the 17th century as a center for marine insurance but has since built up a worldwide market for other types of insurance.

The Central Statistical Office (CSO) recently compiled information on institutions whose primary business is the long-term investment of funds in the securities markets. It covers pension funds, insurance companies, investment trusts, unit trusts, and property trusts. Total net investment by institutions in 1994 was £45.4 billion (\$69.6 billion), down from the record £51.6 billion in 1993. The biggest net investment by an institutional group was that of the long-term insurance companies, with £24.2 billion of this total.

In the mid-1990s, total life insurance in force came to £1.04 trillion. In the United Kingdom, third-party automobile liability, employers' liability, nuclear facility liability, oil pollution liability, aircraft operators' liability and professional liability is compulsory, with the government having a monopoly on workers' compensation.

### 35 PUBLIC FINANCE

National budget deficits recurred throughout the 1970s and early and mid-1980s. Between 1987–88 and 1990–91, the public sector was in surplus, so the government repaid debt. The onset of recession in 1990 led to an increased level of public borrowing—about £14 billion in 1991–92, or 2.25% of GDP. By 1993–94, the public sector borrowing requirement had risen to £50 billion, or 8.1% of GDP. In 1994 the government initiated a series of stringent fiscal measures designed to curb the spiraling public sector borrowing requirement (PSBR).

Since 1998, the United Kingdom has taken aggressive steps to reform its public spending activities. Reforms included limits on expenditures, higher governmental accountability regarding spending, better resource budgeting, and improved spending flexibility.

The US Central Intelligence Agency (CIA) estimates that in 2001 the United Kingdom's central government took in revenues of approximately \$565 billion and had expenditures of \$540 billion. Overall, the government registered a surplus of approximately \$25 billion.

The following table shows an itemized breakdown of government revenues and expenditures. The percentages were calculated from data reported by the International Monetary Fund. The dollar amounts (millions) are based on the CIA estimates provided above.

REVENUE AND GRANTS	100.0%	565,000
Tax revenue	94.0%	531,342
Non-tax revenue	4.8%	27,345
Capital revenue	0.1%	847
Grants	1.0%	5,466
EXPENDITURES	100.0%	540,000
General public services	4.2%	22,581
Defense	7.1%	38,358
Public order and safety	3.5%	18,849
Education	3.7%	20,146
Health	15.4%	83,254
Social security	36.5%	197,091
Housing and community amenities	2.2%	12,104
Recreation, cultural, and religious affairs	0.3%	1,543
Economic affairs and services	4.3%	23,467
Other expenditures	15.0%	81,190
Interest payments	7.7%	41,418

### 36 TAXATION

Taxes on income include a graduated individual income tax and a corporation tax. Although personal income taxes are still high, they have been reduced several times since 1980.

In 2002 the corporate income tax had three brackets: a 10% rate was charged on taxable profits up to £10,000, with marginal relief up to £50,000. 20% was charged on profits between £50,001 and £300,000, with marginal relief up to £1.5 million. The 30% rate was applied to the increment of profits above £1.5 million. In 1997, the rate of this tax was 33%, with a reduced rate of 24% for companies with profits below £300,000 annually. There is a 50% petroleum tax assessed on profits from all exploration and production which is deductible from other corporate tax.

Income tax is charged on all income that has its origin in Britain and on all income arising abroad of persons resident in Britain. However, the United Kingdom has entered into agreements with many countries to provide relief from double taxation. In 2002, the income tax schedule had three brackets: 10% for taxable income up to £1,800; 22% on the next increment of income to £29,400; and 40% on the increment of income above £29,400. Inheritance taxes are 40%. Each taxpayer's marginal rate applies to capital gains in excess of £6,000. The main local taxes are land assessments, or "rates."

In January 1973, a value-added tax (VAT) was introduced with a standard rate of 10%, replacing the purchase tax, and bringing the UK's tax policy into harmony with the EU. In 1991, the standard rate was increased to 17.5% and in 1997, the reduced rate, applied to some medicines, medical equipment, heating oil, gas, electricity, small service businesses and some transportation services, was lowered from 8% to 5%. A zero rate applies to most foods, books, newspapers and periodicals, and certain other goods. Services such as insurance, health, education, and land and rents are also exempt. Other taxes are levied on petroleum products, tobacco, and alcoholic drinks. There are also various stamp duties.

### 37 CUSTOMS AND DUTIES

Import licensing and quotas were the general rule in the United Kingdom between 1939 and 1959. For specified items from specified countries or groups of countries, an individual license was required for each import. In June 1959, however, the United Kingdom began to remove important controls on virtually all raw materials and basic foodstuffs and on some machinery imported from the United States. With UK entry into the free trade area of the EU, a tariff-free area has been created. In addition, the United Kingdom uses the EU's common external tariff for non-EU imports. Rates range from 2% to 14% on most goods. The four principal types of import charges are customs duties, agricultural levies, value-added taxes, and excise duties on goods such as alcohol, tobacco, and tobacco products.

### 38 FOREIGN INVESTMENT

In 2000 and 2001, *Forbes* magazine rated London Europe's top business city. London is the headquarters for 130 of the top 500 global companies. With few exceptions, the United Kingdom does not discriminate between nationals and foreign individuals, and imposes few impediments to foreign ownership. Public-sector procurement policies seek best value and best practice regardless of national origin. The privatization of state-owned utilities is ongoing, and offers additional opportunities for foreign investment.

Over the 10-year period 1992 to 2002, foreign direct investment (FDI) inflow totaled \$484.5 billion, the second highest in the world (after the United States by some distance: the US 10-year total was \$1.3 trillion). In 1997, FDI inflow rose 60% over 1996 to \$33.3 billion, placing the United Kingdom third in the world, behind the United States and China. FDI inflow peaked in 2000 at \$116.6 billion (a fourth-place finish, behind the United States, Belgium-Luxembourg, and Germany), and then fell to \$62 billion in the economic slowdown of 2001. Estimates for 2002 are for a decline of FDI inflow to \$25 billion, reflecting both the bursting of the dot-com bubble and the 60% worldwide decline in FDI following the 11 September 2001 terrorist attacks in the United States. "New economy" businesses in 2003 were more likely to be consolidating under heavy debt burdens than looking to expand through cross-border mergers and acquisitions.

The United Kingdom's outward FDI has normally exceeded its inward flow. Before World War I, British overseas investments were valued at more than \$30 billion (adjusted into 1960 dollars). Even in the period between the two world wars, British foreign investments remained remarkably high. After World War II, the United Kingdom, having given up many of its overseas dependencies and having incurred enormous foreign debts to wage the war, had to liquidate a large part of its overseas holdings. As its economy recovered, the United Kingdom again began to invest overseas. From 1955 to 1964, gross total private capital outflow was at an annual average of £300 million. The abolition of exchange controls in 1979 also encouraged overseas investment. By 1985, private British investment overseas (direct and portfolio) had risen to £76.7 billion (\$101 billion). In 1994,

outward FDI amounted to £100 billion (\$154 billion). In 1997, the outflow was \$43.7 billion. The United Kingdom is the largest source of FDI in the United States, and in 2000, the inflow amounted to almost \$37 billion. However, in 2001, the flow was a negative divestment of over -\$16 billion out of the United States.

### 39 ECONOMIC DEVELOPMENT

Like many other industrialized nations of the West, the United Kingdom has sought to combine steady economic growth with a high level of employment, increased productivity, and continuing improvement in living standards. Attainment of these basic objectives, however, has been hindered since World War II by recurrent deficits in the balance of payments and by severe inflationary pressures. As a result, economic policy has chiefly had to be directed toward correcting these two underlying weaknesses in the economy. When crises have arisen, emergency measures have often conflicted with long-term objectives. In 1967, for example, the government devalued the pound by 14% in order to improve the balance-of-payments position, but simultaneously increased taxes and reduced the growth rate of public expenditures in order to restrain home demand in both public and private sectors. Since the almost uninterrupted upward trend in prices resulted principally from the tendency for money income to rise faster than the volume of production, the government sought to institute a policy designed to align the rise in money income with increases in productivity.

Various bodies have been set up to foster economic development and improve industrial efficiency, notably the National Economic Development Council, established in 1962, which is responsible for the coordination of industry. Another important body, created in 1974, the National Enterprise Board, was set up to help plan industrial investment, particularly in manufacturing and export industries. Subsequently, the Labour government began to de-emphasize increased social services and government participation in the economy and to stress increased incentives for private investment. (A notable exception was in the exploitation of North Sea oil resources.) General investment incentives included tax allowances on new buildings, plants, and machinery. The Conservative government elected in 1979 sought to reduce the role of government in the economy by improving incentives, removing controls, reducing taxes, moderating the money supply, and privatizing several large state-owned companies. This policy was continued by succeeding Conservative governments into the 1990s. The election of a Labour government in 1997 did not reverse this trend. Indeed, privatization is now widely accepted by most of the Labour Party (with the exception of the dwindling numbers of the wing of the party with strong ties to trade unions).

The United Kingdom has long been a major source of both bilateral aid (direct loans and grants) and multilateral aid (contributions to international agencies) to developing countries. To coordinate the overall aid program and its proportions of bilateral and multilateral aid, capital aid, and technical assistance, the Ministry of Overseas Development was set up in 1962. Since 1958, the terms for development loans have progressively softened, and a policy of interest-free loans for the poorest developing countries was introduced in 1965. About 70% of the UK's direct, official bilateral development assistance goes to Commonwealth countries. In 2000, the United Kingdom donated approximately \$4.5 billion in economic aid to developing countries. The United Kingdom made a commitment to increase its official development assistance (ODA) from 0.26% of GNP in 1997 to 0.33% in 2003–04 (the UN's target for donor countries' development aid is 0.7% of GNP).

The most important issue facing Britain in the early 2000s was membership in the European Monetary Union (EMU). Labour Prime Minister Tony Blair decided to opt out of EMU at its

inception in 1998 and has promised a referendum on British membership. The opposition Conservatives oppose abandoning the pound and have the support of a majority of the British population on the issue. In June 2003, the chancellor of the exchequer stated that Britain was not yet ready to enter the euro zone, which made a referendum in the current parliament unlikely, at least until a new government would be seated in 2005. The government in 2003 devoted its attention on the domestic front to improving such public services as health, education, and transportation.

#### 40 SOCIAL DEVELOPMENT

A gradually evolved system of social security, placed in full operation in 1948, provides national insurance, industrial injuries insurance, family allowances, and national assistance throughout the United Kingdom, although the system is administered separately in Northern Ireland. The National Insurance scheme provides benefits for sickness, unemployment, maternity, and widowhood, as well as guardian's allowances, retirement pensions, and death grants. Most of these and the industrial injury benefits are financed in part through a complex system of compulsory weekly flat-rate and graduated contributions by employees, employers, and self-employed. Sickness benefits are paid at a weekly standard rate, with additional amounts for dependents. Unemployment benefits, at the same rates, are payable continuously for up to one year. Retirement pensions cover men at 65 and women at 60. Child benefits provide weekly payments for each child, up to the age of 16 or 19, depending on when the child leaves school.

Financial assistance for the poor is provided through a system of benefits in the form of a supplementary pension for those over statutory retirement age and a supplementary allowance for others. It also provides temporary accommodation for the homeless in specially designated reception centers. For poverty-stricken families in which the head of the household is in full-time employment, a family income supplement is paid. Maternity benefits cover women who have been employed for 26 weeks.

Equal opportunity between the sexes is provided for by law, although some discrimination against women continues. Sexual harassment is a problem in the workplace and women on average earn 18% less than men. Violence against women persists, however there are many laws providing protection and the substantial penalties are strictly enforced.

Although racial discrimination is prohibited by law, people of Asian and African origin are subject to discrimination and harassment. Ethnic minorities are also more likely to be stopped and searched by police. The government at all levels fully respects the legal right to freedom of religion. Human rights organizations have criticized legislation in Northern Ireland which denies suspects the right to immediate legal counsel and the right to silence. There are also some security-related restrictions on the freedoms of assembly and association in Northern Ireland.

#### 41 HEALTH

Life expectancy has increased from about 50 years at birth in 1900–10 to about 74.7 years for men and 80.2 years for women in 1999. Rising living standards, medical advances, the growth of medical facilities and their general availability, and the smaller size of the family are some factors in the improved health of the British people. Deaths from infectious diseases have been greatly reduced, although the proportion of deaths from circulatory diseases—including heart attacks and strokes—and cancer has risen. Infant mortality has decreased from 142 per 1,000 live births in 1900–02 to 6 in 2000. As of 2002, the crude birth rate and overall mortality rate were estimated at, respectively, 11.3 and 10 per 1,000 people. A high portion of women aged 15–44 used birth control in the mid-1990s (82%).

A comprehensive National Health Service (NHS), established in 1948, provides full medical care to all residents of the United Kingdom. NHS delivers health care through 129 health authorities, each of which receives money from the government and then purchases a preset amount of treatment each year from hospitals. Included are general medical, dental, pharmaceutical, and optical services; hospital and specialist services (in patients' homes when necessary) for physical and mental illnesses; and local health authority services (maternity and child welfare, vaccination, prevention of illness, health visiting, home nursing, and other services). The patient is free to choose a family doctor from any in the service, subject to the physician's acceptance. General tax revenues meet most of the cost of the NHS; the remainder is paid through National Health Insurance contributions and charges for certain items, including eyeglasses and prescription drugs. Compared with other OECD countries, the UK's per capita expenditure on health care is low. In the United Kingdom, 6.9% of the GDP went to health expenditures as of 1999.

All specialist and auxiliary health services in England are the direct responsibility of the secretary of state for social services. In Wales, Scotland, and Northern Ireland the corresponding services and administrative bodies are under the respective secretaries of state. All hospitals, except a few run mostly by religious orders, are also in the NHS. In 1991, the United Kingdom implemented major reforms in its health care services, including improvements in virtually all facets of the program. Areas of concern as of 1999 included incidence of coronary/stroke, cancer, accidents, mental illness, and HIV/AIDS. In the mid-1990s more than 276,000 deaths per year were related to cardiovascular disease. Smoking prevalence was similar between men (28%) and women (26%) over 15 years old. Half the British population is currently overweight. These high rates have been attributed to a sedentary lifestyle during leisure time.

The NHS is has been undergoing restructuring; increased numbers of NHS hospitals are being decentralized by conversion to NHS Trust, established in 1991. NHS costs Britain's taxpayers more than \$73 billion per year. An aging population, costlier treatments, and a budget crisis have forced the cancellation of non-emergency treatment at some centers. The number of beds available is below the level of demand, causing long waits for treatment. As of 30 September 1996, 1,061,532 persons were awaiting inpatient treatment, of whom 77.4% had been waiting for up to five months, 21.2% for 6–11 months, and 1.4% for more than 12 months.

As of 1999, there were an estimated 1.8 physicians and 4.1 hospital beds per 1,000 people. The immunization rates for children under one year of age were as follows in 1990–95: diphtheria, pertussis, and tetanus, 92%; polio, 94%; measles, 92%; and tuberculosis, 75%. In 1999, the rates for DPT and measles were, respectively, 93% and 91%. In 1999, the incidence of tuberculosis was 12 per 100,000 people. Since 1982, to help control the spread of AIDS, the government has funded and implemented measures for blood testing, research, public education, and other social services relating to the disease. As of 1999, the number of people living with HIV/AIDS was estimated at 20,800 and deaths from AIDS that year were estimated at 450. HIV prevalence was 0.1 per 100 adults.

#### 42 HOUSING

By the mid 1990s there were more than 23 million dwellings in the United Kingdom. Nearly 70% were owned by their occupants; almost 30% were owned by public authorities; the remainder (mainly older houses) were rented from private landlords. About 50% of families now live in a post-1945 dwelling, usually a two-story house with a garden. Most homeowners finance their purchase through a home mortgage loan from a building society, bank, insurance company, or other

financial institution. The degree of overcrowding in the United Kingdom is lower than in most European countries.

New houses are built by both the public and private sectors, but most are built by the private sector for sale to owner-occupiers. The main providers of new subsidized housing are housing associations, which own, manage, and maintain over 600,000 homes in England alone and completed over nearly 30,000 new homes for rent or shared ownership per year in the mid-1990s. Local housing authorities were in the past primarily concerned with slum clearance; however, large-scale clearance virtually ended in the mid-1980s, with emphasis shifting to modernization of substandard homes and community improvement.

Preliminary data of the 2001 census indicated that there were about 21,660,475 households in England and Wales. About 33% of all households lived in semi-detached houses.

### 43 EDUCATION

Although responsibility for education in the United Kingdom rests with the central government, schools are mainly administered by local education authorities. Virtually the entire adult population is literate. Education is compulsory for all children between the ages of 5 and 16. In 1997, 5,328,219 students attended Britain's 23,306 primary schools. Primary teachers numbered 283,492, and student-to-teacher ratio stood at 19 to 1. As of 1999, 99% of primary-school-age children were enrolled in school, while 94% of those eligible attended secondary school. The majority of primary students attend state schools that are owned and maintained by local education authorities. A small minority attend voluntary schools mostly run by the churches and also financed by the local authorities.

Since 1989, the government has introduced a "National School Curriculum" in England and Wales comprised of four key stages: five to seven (infants); 7 to 11 (juniors); 11 to 14 (pre-GCSE); and 14 to 16 (GCSE). Similar reforms are being introduced in Scotland and Northern Ireland. The main school examination, the General Certificate of Secondary Education (GCSE) is taken in England, Wales, and Northern Ireland at around the age of 16. A separate exam system exists in Scotland. Of the 2,500 registered independent schools, the largest and most important (Winchester, Eton, Harrow, and others) are known in England as "public schools." Many have centuries of tradition behind them and are world famous. In 1997, 6,548,786 students were enrolled in secondary schools, with 464,134 teachers.

Including the Open University, a nonresidential institution whose courses are conducted by television and radio broadcasts and correspondence texts, Britain had 47 universities in the 1990s (compared with 17 in 1945). As a result of legislation, nearly all polytechnics have become universities and started awarding their own degrees in 1993. The Universities of Oxford and Cambridge date from the 12th and 13th centuries, respectively; the Scottish universities of St. Andrews, Glasgow, Aberdeen, and Edinburgh from the 15th and 16th centuries. Besides the universities, there are more than 800 other institutions of higher education, including technical, art, and commercial colleges run by local authorities. The proportion of young people entering university has risen from one in eight in 1980 to one in five in 1990. By 1996, all institutions of higher education had a combined enrollment of 1,820,849 students; teaching staff totaled 89,241.

National policy stipulates that no person should be excluded from higher education by lack of means. More than 90% of students in higher education hold awards from public or private funds. In 1997, the government began to reconsider its policy of cost-free tuition by announcing that students would become responsible for some of the expense. As of 1999, public expenditure on education was estimated at 4.7% of GDP.

### 44 LIBRARIES AND MUSEUMS

London has more than 500 libraries, among them the British Library, the largest in the United Kingdom, with about 16 million volumes. The National Library of Scotland, with about seven million volumes, is in Edinburgh, and the National Library of Wales, with some four million volumes, in Aberystwyth. The Bodleian Library at Oxford University has about 6.7 million volumes, and the Cambridge University Library has 5.9 million. Each of these five is a copyright library, entitled to receive a copy of every new book published in the United Kingdom.

Other major libraries in London include the University of London Central Library (two million), the London Library (the largest public subscription library), the Science Museum Library (600,000), the Victoria and Albert Museum Art Library, the Public Record Office (containing such national historical treasures as the Domesday Book), and the libraries of such institutions as the Royal Institute of International Affairs (140,000), the Royal Commonwealth Society (150,000), the Royal Geographical Society (150,000), the Royal Academy of Arts (22,000), and the National Library for the Blind. In 2002 a Women's Library opened in London giving a home to publications documenting women's lives in Britain. There are major libraries at the Universities of Edinburgh (2.4 million), Glasgow (1.4 million), Queen's University in Belfast (1.1 million), and St. Andrew's (920,000). Manchester Metropolitan University has one million volumes.

Public libraries are administered by public library authorities (councils of counties, county boroughs, municipal boroughs, and urban districts). Public libraries also lend music scores, cassettes, and records. Rural areas are served by traveling vans.

The United Kingdom is a museum-lover's dream. Almost every city and large town has museums of art, archaeology, and natural history. There are more than 1,000 museums and art galleries, ranging from nearly two dozen great national institutions to small collections housed in a few rooms. London has the British Museum (founded 1759), with its vast collections of archaeological and ethnographic material from all over the world, and the Victoria and Albert Museum, including extensive collections of works of fine and applied arts. In the late 1990s, the British Museum was struggling financially; trustees rejected admission fees, and a multimillion-dollar deficit was projected when the government, which had funded most of the \$84.5 million budget through the National Lottery, began reducing contributions. The National Gallery, the Tate Gallery, and the National Portrait Gallery are among other prestigious London art museums. Other museums located in London include the London Transport Museum (founded 1978), the National Maritime Museum (1934), the Natural History Museum (1963), and the Science Museum (1857). There is also a collection of royal ceremonial dress at Kensington Palace, and the Sherlock Holmes Museum, featuring Victorian memorabilia, opened in 1990. The Tate Gallery of Modern Art, featuring rotating exhibits arranged by theme, opened in May 2000. The National Museum of Wales is in Cardiff, and there are six national museums and art galleries in Edinburgh. Belfast has a quasi-national museum and art gallery and is the site of the Northern Irish Folk Museum. There are important museums and art galleries in Liverpool, Manchester, Leicester, Birmingham, Bristol, Norwich, Southampton, York, Glasgow, Leeds, and other cities. Oxford and Cambridge each have many museums, and several other universities also have important collections. Private art collections in historic family mansions are open to the public at specified times.

## 45 MEDIA

The Post Office, founded in 1635, was the first in the world to institute adhesive stamps as proof of payment for mail. It now operates nearly all postal services. As authorized by 1981 legislation, the Thatcher government relaxed postal and telecommunications monopolies in some areas. The Telecommunications Act of 1984 further promoted competition and denationalized British Telecommunications (Telecom), which as of 1997 encompasses a system of over 34 million telephone exchange lines. In 1998 there were an additional 13 million mobile cellular phones in use throughout the country. As of 1995, there were 63,500 telex connections, and 500,000 data transmission terminals. Some 170 countries can be dialed directly.

Radio and television broadcasting services are provided by the British Broadcasting Corp. (BBC), which was established as a public corporation in 1927, and by the Independent Television Commission (ITC) and the Radio Authority, commercial concerns whose powers are defined in the Independent Broadcasting Authority Act of 1973. The BBC broadcasts on two television channels and the Independent Television Commission broadcasts on ITV and Channel Four, which began operating in 1982. BBC Radio offers five national radio networks in the medium- and long-wave bands, as well as FM programming and an overseas service in 37 languages. Both the BBC and IBA operate local radio services; the BBC has 39 local stations (including 2 for the Channel Islands). In September of 1992, the first national commercial radio station, Classic FM, was inaugurated, and two other similar stations were planned. As of 1999, there were 225 AM and 525 (mostly repeater) FM radio stations and 78 television stations. In 2000, there were 1,432 radios and over 500 television sets for every 1,000 people. The same year, there were about 338 personal computers in use for every 1,000 people and 245 Internet service providers were serving 33 million people by 2001.

Although circulation totals have been decreasing, UK newspaper readership per capita was the second highest in the world in 1995. As of that year there were about 101 daily and Sunday newspapers, some 2,000 weekly papers, numerous specialized papers, and about 7,000 periodicals. Nine Sunday papers and 12 daily morning papers are "national" in the sense of circulating throughout Britain. National dailies, with their political tendencies and their average daily circulations in 2002, are the following:

ENGLAND	ORIENTATION	CIRCULATION
<i>The Sun</i>	Left of center	3,472,840
<i>Daily Mail</i>	Independent conservative	2,476,625
<i>Daily Mirror</i>	Independent left-wing	2,187,960
<i>Daily Telegraph</i>	Independent conservative	1,020,890
<i>Daily Express</i>	Independent conservative	957,970
<i>The Times</i>	Independent	719,861
<i>Daily Star</i>	Independent	620,420
<i>Financial Times</i>	Independent	478,535
<i>The Observer</i>	NA	473,521
<i>Evening Standard</i>	Independent	430,230
<i>The Guardian</i>	Independent	413,670

In 2002, the newspaper with the highest circulation was the tabloid *News of the World*, which distributes over 4 million papers per week. Six other the Sunday papers have circulations in the millions. The provincial press included more than 100 daily and Sunday newspapers and some 1,600 weeklies in 1992.

In 2002 major papers outside of London (with 2002 circulation) included:

	LOCATION	CIRCULATION
<i>The Express and Star</i>	Wolverhampton	179,460
<i>Manchester Evening News</i>	Manchester	168,320
<i>Liverpool Echo</i>	Liverpool	150,940
<i>Evening Mail</i>	Birmingham	127,983
<i>Evening Chronicle</i>	Newcastle-Upon-Tyne	101,490
<i>Sunday Mercury</i>	Birmingham	100,400
<i>Yorkshire Evening Post</i>	Leeds	95,250

The weekly *Berrow's Worcester Journal*, founded in 1690, claims to be the world's oldest continuously circulating newspaper. Wales has five daily newspapers (as follows with 2002 circulation):

WALES	LOCATION	CIRCULATION
<i>South Wales Echo</i>	Cardiff	70,570
<i>South Wales Evening Post</i>	West Glamorgan	61,180
<i>Western Mail</i>	Cardiff	52,760
<i>South Wales Argus</i>	Gwent	30,990
<i>Evening Leader</i>	Clwyd	30,250

Scotland has six morning, five evening, and four Sunday papers, plus the Scottish editions of the *Daily Mail* and the *Sunday Express*. The *Glasgow Herald* (2002 circulation 95,718) and *The Scotsman* (82,270), an Edinburgh paper, are the most influential. Others include:

SCOTLAND	LOCATION	CIRCULATION
<i>Sunday Mail</i>	Glasgow	701,310
<i>Daily Record</i>	Glasgow	597,420
<i>Evening Times</i>	Glasgow	103,130
<i>The Press and Journal</i>	Aberdeen	98,763
<i>The Herald</i>	Glasgow	95,720
<i>Courier and Advertiser</i>	Dundee	90,260
<i>Evening News</i>	Edinburgh	74,020

About 120 weekly papers are published in Scottish towns.

Northern Ireland has two morning papers, one evening paper, and one Sunday paper, all published in Belfast (with circulations ranging from 32,780 to 111,330), plus a number of weeklies. The evening paper is the *Belfast Telegraph* (circulation 111,330).

Britain's ethnic minorities publish over 60 newspapers and magazines, most of them weekly, fortnightly or monthly. These include the Chinese *Sing Tao* and *Wen Wei Po*, the Urdu *Daily Jang*, and the Arabic *Al-Arab* (the foregoing are all dailies), as well as newspapers in Gujarati, Bengali, Hindi and Punjabi. The *Weekly Journal*, aimed at Britain's black community, was begun in 1992.

The over 7,000 periodicals published weekly, monthly, or quarterly cover a huge range of special interests. Leading opinion journals are *New Statesman*, *The Economist*, and *Spectator*. The *Times Literary Supplement* is highly influential in cultural affairs. The chief news agency is Reuters, a worldwide organization servicing British papers with foreign and Commonwealth news and the world press with British and foreign news.

Although there is no government censorship of news or opinion, the Official Secrets Act, stringent libel and slander laws, and restrictions governing the disclosure of court proceedings do impose limitations on press freedom. In addition, the press regulates itself through the Press Council, which adjudicates complaints about newspaper practices from local officials and the public. Views critical of the government are well established.

## 46 ORGANIZATIONS

A vast number of organizations in the United Kingdom carry on programs in every phase of human activity. Voluntary social service organizations number in the thousands. Social work on a national scale is carried out under religious sponsorship. Cooperation between Protestant churches is fostered by the British Council of Churches. The Council of Christians and Jews

works for cooperation between these faiths. The principal coordinating body in general social service is the National Council of Social Service.

Voluntary organizations are active in adult education. The British Council promotes a wider knowledge of the United Kingdom and its people abroad and develops cultural relations with other countries. There are more than 300 learned societies. The Arts Council of Great Britain (founded in 1946) promotes the fine arts and higher artistic standards, and advises government bodies on artistic matters. The Royal Academy and the Royal Scottish Academy are other leading bodies in the arts. The National Book League, the Royal Society of Literature, the British Academy, the English Association, the Bibliographical Society, and other groups foster interest in literature, language, and scholarship. The Arts Council of Wales was established in 1967. Arts and Cultural organizations in Scotland include the Royal Scottish Academy of Music and Drama; the Royal Scottish Academy of Painting, Sculpture and Architecture; the Royal Scottish Country Dance Society; the Scottish Arts Council; and the Scottish Games Association. Clan associations are also popular in Scotland, with many providing genealogical research and social events and contact.

The National Council for Voluntary Youth Services includes most of the largest youth groups. The leading political parties, major religious denominations, and some adult voluntary organizations, such as the Red Cross, maintain youth organizations. There is also a Scouts Association and a Girl Guides Association. There are numerous sports associations for participants of all ages.

The national body representing British industry is the Confederation of British Industry, incorporated in 1965 and directly or indirectly representing about 250,000 companies. The Association of British Chambers of Commerce (founded in 1860) has 240 affiliated UK chambers. Agricultural organizations include the National Farmers' Union, agricultural cooperative societies, and other specialized associations.

#### 47 TOURISM, TRAVEL, AND RECREATION

The United Kingdom is a popular tourist destination, rich in natural as well as cultural attractions. Landscapes range from farmlands and gardens to sandy beaches, moors, and rocky coasts. Architectural sights include stone and thatched cottages, stately country houses, mansions, and castles. Among the many historic dwellings open to the public are the Welsh castles Cilgerran (11th century), Dolbadarn (12th century), and Conway and Caernarvon (both 13th century); 10-century-old Traquair House near Peebles, the oldest continuously inhabited house in Scotland, and the Palace of Holyroodhouse in Edinburgh; and Warwick Castle, near Stratford-upon-Avon, the birthplace of William Shakespeare. Distinguished cathedrals include St. Paul's in London and those in Canterbury, Exeter, Norwich, Winchester, and York. At Bushmills, in Northern Ireland, the oldest distillery in the world may be visited, and some of Scotland's 100 malt whiskey distilleries also offer tours.

Among London's extraordinary attractions are Buckingham Palace, the Tower of London, and Westminster Abbey. Of the wide range of entertainment available, London is particularly noted for its theater, including the Royal Shakespeare Company. Folk music may be heard throughout the United Kingdom; traditional community gatherings for music and dancing, called ceilidhs, are held in Scotland, often in pubs, and Edinburgh is the site of one of the world's largest folk festivals, as well as an annual festival of classical music and other performing arts.

Scotland, where golf developed in the 15th century, has many superb golf courses, as does the rest of the United Kingdom; some 70 Highland Games and Gatherings take place in Scotland from May to September. Other popular sports include fishing, riding, sailing, rugby, cricket, and soccer football. Wimbledon is the site

of perhaps the world's most prestigious tennis competition. London hosted the summer Olympics in 1908 and 1948. England hosted and won the World Cup soccer championship in 1966.

In principle, foreigners entering the United Kingdom must have a valid passport and a visa issued by British consular authorities abroad. However, citizens of Ireland do not need a passport, and citizens of OECD, Commonwealth, and Latin American countries, among others, need no visa. Tourism yields a substantial income from overseas; in 2000, 25,211,000 foreign visitors spent \$19.5 billion in the United Kingdom. There are more than one million beds available in hotel and other accommodations.

According to 2002 US government estimates, the cost of staying in London was \$336 per day.

### 48 FAMOUS BRITONS

#### Rulers and Statesmen

English rulers of renown include Alfred the Great (849–99), king of the West Saxons, who defeated and held off the Danish invaders; William I (the Conqueror, 1027–87), duke of Normandy, who conquered England (1066–70) and instituted many changes in the structure of English government and society; Henry II (1133–89), who centralized the power of the royal government, and his sons Richard I (the Lion-Hearted, 1157–99), leader of the Third Crusade, and John (1167?–1216), from whom the barons wrested the Magna Carta; Edward I (1239–1307), who subdued Wales and established the parliamentary system; Edward III (1312–77), who for a time conquered part of France, and did much to promote English commerce; Henry VIII (1491–1547), who separated the Anglican Church from the Roman Catholic Church and centralized administrative power; Elizabeth I (1533–1603), during whose reign, begun in 1558, England achieved great commercial, industrial, and political power, and the arts flourished; and Victoria (1819–1901), under whom Britain attained unprecedented prosperity and empire.

Among the statesmen distinguished in English history are Thomas à Becket (1118?–70), archbishop of Canterbury, who defended the rights of the church against the crown; Simon de Montfort, earl of Leicester (1208?–65), who in 1265 summoned the first Parliament; and Thomas Wolsey (1475?–1530), cardinal, archbishop of York, and Henry VIII's brilliant lord chancellor. Oliver Cromwell (1599–1658) established a republican and Puritan Commonwealth. Sir Robert Walpole, first earl of Oxford (1676–1745), unified cabinet government in the person of the prime minister and laid the foundations for free trade and a modern colonial policy. As England moved increasingly toward democratic government, important progress was achieved under the liberal statesmen William Pitt, first earl of Chatham (1708–78); his son William Pitt (1759–1806); and Charles James Fox (1749–1806). Outstanding statesmen of the 19th century were William Wilberforce (1759–1833); Henry John Temple, third Viscount Palmerston (1784–1865); Sir Robert Peel (1788–1850); Benjamin Disraeli, earl of Beaconsfield (1804–81); and William Ewart Gladstone (1809–98). Twentieth-century leaders include David Lloyd George, first earl of Dwyfor (1863–1945), prime minister during World War I; and Sir Winston Leonard Spencer Churchill (1874–1965), prime minister during World War II, historian, and winner of the Nobel Prize for literature in 1953. In 1979, Margaret (Hilda Roberts) Thatcher (b.1925) became the nation's first woman prime minister. The reigning monarch since 1952 has been Queen Elizabeth II (b.1926). The heir to the throne is Charles, prince of Wales (b.1948), whose marriage on 29 July 1981 to Lady Diana Frances Spencer (1961–1997; at marriage, Diana, princess of Wales) was seen by a worldwide television audience of 750 million people.

### Explorers and Navigators

British explorers and navigators played an important part in charting the course of empire. Sir Martin Frobisher (1535?–94), who set sail from England in search of the Northwest Passage, reached Canada in 1576. Sir Francis Drake (1545?–96) was the first Englishman to sail around the world. John Davis (1550?–1605) explored the Arctic and Antarctic, sailed to the South Seas, and discovered the Falkland Islands. Henry Hudson (d.1611) explored the Arctic regions and North America. Sir Walter Raleigh (1552?–1618) was a historian and poet, as well as a navigator and colonizer of the New World. James Cook (1728–79) charted the coasts of Australia and New Zealand. Scottish-born David Livingstone (1813–73) explored central Africa while doing missionary work. Welsh-born Henry Morton Stanley (John Rowlands, 1841–1904) was sent by a US newspaper to find Livingstone in 1871 and, having done so, returned for further exploration of Africa. Sir Richard Francis Burton (1821–90), an Orientalist known for his translation of the *Arabian Nights*, and John Hanning Speke (1827–64) explored central Africa while searching for the source of the Nile.

Great British military figures include John Churchill, first duke of Marlborough (1650–1722), who attained many victories in the War of the Spanish Succession and in later campaigns against the French; Horatio, Viscount Nelson (1758–1805), the foremost British naval hero, whose career was climaxed by victory and death at Trafalgar; the Irish-born soldier-statesman Arthur Wellesley, first Duke of Wellington (1769–1852), whose brilliant campaigns culminated in the defeat of Napoleon at Waterloo; General Charles George Gordon (1833–85), who gained victories in China, acquiring the nickname “Chinese,” and died while fighting against the Mahdi in Khartoum; Field Marshal Viscount Montgomery (Bernard Law Montgomery, 1887–1976), British military leader during World War II; Welsh-born Thomas Edward Lawrence (1888–1935), known as “Lawrence of Arabia,” who led the Arabs in uprisings against the Turks during World War I; and Lord Mountbatten of Burma (Louis Battenberg, 1900–1979), supreme Allied commander in Southeast Asia (1943–46) and last viceroy and first governor-general of India (1946–48).

### Philosophers and Legal Scholars

Sir Thomas Littleton (1407?–81) wrote *Tenures*, a comprehensive work on English land law that was used as a textbook for over three centuries. Sir Edward Coke (1552–1634), a champion of the common law, wrote the *Institutes of the Laws of England*, popularly known as *Coke on Littleton*. Sir William Blackstone (1723–80) wrote *Commentaries on the Laws of England*, which became a basic text in modern legal education and strongly influenced the evolution of jurisprudence in the US as well as in Britain. The jurist-philosopher Jeremy Bentham (1748–1832) championed liberal law reform.

Roger Bacon (1214?–92), philosopher and scientist, wrote treatises ranging over the whole field of human knowledge. John Duns Scotus (1265?–1308) was a Scottish-born dialectician and theologian. William of Ockham (1300?–1349) laid the foundation of the modern theory of the separation of church and state. John Wesley (1703–91) was the founder of Methodism. Chief among modern philosophers are Thomas Hobbes (1588–1679), John Locke (1632–1704), the Irish-born bishop and idealist thinker George Berkeley (1685–1753), John Stuart Mill (1806–73), Alfred North Whitehead (1861–1947), George Edward Moore (1873–1958), Ludwig Joseph Johann Wittgenstein (b.Austria, 1889–1951), and Sir Alfred Jules Ayer (b.1910–1989). A philosopher and mathematician who widely influenced contemporary social thought was Bertrand Arthur William Russell, third Earl Russell (1872–1970).

### Historians and Economists

Noted historians include Raphael Holinshed (d.1580?), Edward Gibbon (1737–94), John Emerich Edward Dalberg-Acton, first Baron Acton (1834–92), William Edward Hartpole Lecky (1836–1903), John Richard Green (1837–83), Frederic William Maitland (1850–1906), George Macaulay Trevelyan (1876–1962), Giles Lytton Strachey (1880–1932), Sir Lewis Bernstein Namier (1880–1960), Arnold Joseph Toynbee (1889–1975), and Edward Hallett Carr (1892–1982).

Thomas Robert Malthus (1766–1834) and David Ricardo (1772–1823) were among the first modern economists. Robert Owen (1771–1858) was an influential Welsh-born socialist, industrial reformer, and philanthropist. Walter Bagehot (1826–77) was a distinguished critic and social scientist. The theories of John Maynard Keynes (Baron Keynes, 1883–1946) have strongly influenced the economic practices of many governments in recent years. Sir James George Frazer (1854–1941), a Scottish-born anthropologist and author of *The Golden Bough*, was a pioneer in the fields of comparative religion and comparative mythology. Herbert Spencer (1820–1903) was an influential economic and social philosopher. Sir Arthur John Evans (1851–1941) was an archaeologist who explored the ruins of ancient Crete. Anna Freud (b.Austria, 1895–1982), daughter of Sigmund Freud, and Melanie Klein (b.Austria, 1882–1960) were psychoanalysts influential in the study of child development. Noted anthropologists include Sir Edward Burnett Tylor (1832–1917); Polish-born Bronislaw Kasper Malinowski (1884–1942); Louis Seymour Bazett Leakey (1903–72) and his wife, Mary Leakey (1913–96), who discovered important fossil remains of early hominids in Tanzania; and Ashley Montagu (1905–1999).

### Scientists

Present-day concepts of the universe largely derive from the theories of the astronomer and physicist Sir James Hopwood Jeans (1877–1946), the astronomers Sir Arthur Stanley Eddington (1882–1946) and Sir Fred Hoyle (1915–2001), and the radio astronomers Sir Martin Ryle (1918–84) and Anthony Hewish (b.1924), who shared the Nobel Prize for physics in 1974. Other British scientists and inventors who won fame for major contributions to knowledge include William Harvey (1578–1657), physician and anatomist, who discovered the circulation of the blood; Irish-born Robert Boyle (1627–91), physicist and chemist, who investigated the properties of gases; Sir Isaac Newton (1642–1727), natural philosopher and mathematician, who discovered gravity and made important advances in calculus and optics; German-born physicist Gabriel Daniel Fahrenheit (1686–1736), who introduced the temperature scale named after him; James Watt (1736–1819), the Scottish-born engineer who invented the modern condensing steam engine; Edward Jenner (1749–1823), who discovered the principle of vaccination; the great chemists John Dalton (1766–1844), who advanced the atomic theory, and Sir Humphry Davy (1778–1829); George Stephenson (1781–1848), inventor of the locomotive steam engine; Michael Faraday (1791–1867), a chemist and physicist noted for his experiments in electricity; Scottish-born geologist Sir Charles Lyell (1797–1875), the father of modern geology; Charles Darwin (1809–82), the great naturalist who advanced the theory of evolution; James Prescott Joule (1818–89), a physicist who studied heat and electrical energy; Thomas Henry Huxley (1825–95), a biologist who championed Darwin's theory; James Clerk Maxwell (1831–79), the Scottish-born physicist who developed the hypothesis that light and electromagnetism are fundamentally of the same nature; Sir Alexander Fleming (1881–1955), bacteriologist, who received the 1945 Nobel Prize for medicine for the discovery of penicillin in 1928; and Francis Harry Compton Crick (b.1916) and Maurice Hugh Frederick Wilkins (b.New Zealand, 1916), two of



the three winners of the 1962 Nobel Prize in physiology or medicine for their research into the structure of the DNA molecule.

### Literature and the Arts

Geoffrey Chaucer (1340?–1400) wrote the *Canterbury Tales* and other works that marked the height of medieval English poetry. Other major medieval poets were John Gower (1325?–1408) and William Langland (1332?–1400?). William Caxton (1422–91) was the first English printer. Sir Thomas Malory (fl.1470) derived from French and earlier English sources the English prose epic traditionally known as *Morte d'Arthur*. Two religious reformers who translated the Bible into English, making it accessible to the common people, were John Wycliffe (1320?–84), who made the first complete translation, and William Tyndale (1492?–1536), who made the first translation from the original languages instead of Latin.

During the reign of Elizabeth I, England's golden age, emerged the dramatist and poet William Shakespeare (1564–1616), a giant of English and world literature, and a galaxy of other fine poets and playwrights. Among them were Edmund Spenser (1552?–99), Irish-born author of the *Faerie Queene*; the poet and soldier Sir Philip Sidney (1554–86); and the dramatists Christopher Marlowe (1564–93) and Ben Jonson (1572–1637). Outstanding writers of the Stuart period include the philosopher, scientist, and essayist Francis Bacon (1561–1626), first Baron Verulam Viscount St. Albans; John Donne (1572–1631), the greatest of the metaphysical poets; the lyric poet Robert Herrick (1591–1674); John Milton (1608–74), author of *Paradise Lost* and other poems and political essays; John Bunyan (1628–88), who created the classic allegory *Pilgrim's Progress*; and the poet, playwright, and critic John Dryden (1631–1700). The greatest Restoration dramatists were William Wycherley (1640–1716) and William Congreve (1670–1729). Two authors of famous diaries mirroring the society of their time were John Evelyn (1620–1706) and Samuel Pepys (1633–1703).

Distinguished writers of the 18th century include the Irish-born satirist Jonathan Swift (1667–1745), author of *Gulliver's Travels*; the essayists Joseph Addison (1672–1719) and Sir Richard Steele (1672–1729), whose journals were the prototypes of modern magazines; the poets Alexander Pope (1688–1744) and Thomas Gray (1716–71); the critic, biographer, and lexicographer Samuel Johnson (1709–84); and the Irish-born playwrights Oliver Goldsmith (1730?–74), also a poet and novelist, and Richard Brinsley Sheridan (1751–1816). The poet and artist William Blake (1757–1827) worked in a unique mystical vein.

The English Romantic movement produced a group of major poets, including William Wordsworth (1770–1850); Samuel Taylor Coleridge (1772–1834); George Noel Gordon Byron, sixth Lord Byron (1788–1824); Percy Bysshe Shelley (1792–1822); and John Keats (1795–1821). Victorian poets of note included Alfred, Lord Tennyson (1809–92); Elizabeth Barrett Browning (1806–61); her husband, Robert Browning (1812–89); Dante Gabriel Rossetti (1822–82); his sister, Christina Georgina Rossetti (1830–94); Algernon Charles Swinburne (1837–1909); and Gerard Manley Hopkins (1844–89). Edward FitzGerald (1809–83) is famous for his free translations of Omar Khayyam's *Rubáiyát*. Matthew Arnold (1822–88) was a noted poet and critic. Other prominent critics and essayists include Charles Lamb (1775–1834), William Hazlitt (1778–1830), Thomas De Quincey (1785–1859), John Ruskin (1819–1900), Leslie Stephen (1832–1904), and William Morris (1834–96). Thomas Babington Macaulay (1800–1859) was a distinguished statesman, essayist, and historian. John Henry Cardinal Newman (1801–90) was an outstanding Roman Catholic theologian. Irish-born Oscar Fingal O'Flahertie Wills Wilde (1854–1900) was famous as a playwright, novelist, poet, and wit.

Major poets of the 20th century include Alfred Edward Housman (1859–1936); Walter John de la Mare (1873–1956); Dame Edith Sitwell (1887–1964); US-born Thomas Stearns Eliot (1888–1965), winner of the Nobel Prize in 1949; Wystan Hugh Auden (1907–73); Welsh-born Dylan Thomas (1914–53); Philip Larkin (1922–85); and Ted Hughes (b.1930). Prominent critics include Frank Raymond Leavis (1895–1978) and Sir William Empson (1906–84).

The English novel's distinguished history began with Daniel Defoe (1660–1731), Samuel Richardson (1689–1761), Henry Fielding (1707–54), and Laurence Sterne (1713–68). It was carried forward in the 19th century by Jane Austen (1775–1817), William Makepeace Thackeray (1811–63), Charles Dickens (1812–70), Charles Reade (1814–84), Anthony Trollope (1815–82), the Brontë Sisters—Charlotte (1816–55) and Emily (1818–48)—George Eliot (Mary Ann Evans, 1819–80), George Meredith (1828–1909), Samuel Butler (1835–1902), and Thomas Hardy (1840–1928), who was also a poet. The mathematician Lewis Carroll (Charles Lutwidge Dodgson, 1832–98) became world-famous for two children's books, *Alice in Wonderland* and *Through the Looking Glass*. Rudyard Kipling (1865–1936), author of novels, stories, and poems, received the Nobel Prize for literature in 1907. Sir Arthur Conan Doyle (1859–1930) is known throughout the world as the creator of Sherlock Holmes.

Twentieth-century fiction writers of note include the Polish-born Joseph Conrad (Teodor Józef Konrad Korzeniowski, 1857–1924); Herbert George Wells (1866–1946), who was also a popular historian and a social reformer; Arnold Bennett (1867–1931); John Galsworthy (1867–1933), also a playwright, who received the Nobel Prize in 1932; William Somerset Maugham (1874–1965), also a playwright; Edward Morgan Forster (1879–1970); Virginia Woolf (1882–1941); David Herbert Lawrence (1885–1930); Joyce Cary (1888–1957); Katherine Mansfield (b.New Zealand, 1888–1923); Dame Agatha Christie (1881–1976), also a playwright; Dame Ivy Compton-Burnett (1892–1969); Dame Rebecca West (b.Ireland, 1892–1983), also known for her political writings and as an active feminist; Aldous Huxley (1894–1963); John Boynton Priestley (1894–1984), also a playwright; Irish-born Robert Ranke Graves (1895–1985), also a poet, novelist, scholar, and critic; George Orwell (Eric Blair, 1903–50), also a journalist and essayist; Evelyn Waugh (1903–66); Graham Greene (1904–91); Anthony Dymoke Powell (b.1905); Henry Green (Henry Vincent Yorke, 1905–74); Charles Percy Snow (Baron Snow, 1905–80), also an essayist and a physicist; William Golding (1911–93), Nobel Prize winner in 1983; Lawrence George Durrell (b.India, 1912–90); Anthony Burgess (1917–93); Doris Lessing (b.Iran, 1919); and John Le Carré (David John Moore Cornwell, b.1931). The dominant literary figure of the 20th century was George Bernard Shaw (1856–1950), Dublin-born playwright, essayist, critic, and wit. The playwright-composer-lyricist Sir Noel Coward (1899–1973) directed and starred in many of his sophisticated comedies. Harold Pinter (b.1930) has been a highly influential playwright.

### Actors and Actresses

The British stage tradition dates back to Richard Burbage (d.1619), the greatest actor of Shakespeare's time, and Edmund Kean (1787–1833), the greatest tragedian of the Romantic era. Luminaries of the modern theater are Dame Ellen Alicia Terry (1848–1928), Dame Sybil Thorndike (1882–1976), Dame Edith Evans (1888–1976), Sir Ralph Richardson (1902–83), Sir John Gielgud (1904–2000), Laurence Olivier (Baron Olivier of Brighton, 1907–1989), Sir Michael Redgrave (1908–85), and Derek George Jacobi (b.1938). Prominent stage directors are Peter Stephen Paul Brook (b.1925) and Sir Peter Reginald Frederick Hall (b.1930). Major contributors to the cinema have included the comic actor and director Charlie (Sir Charles Spencer) Chaplin (1889–1977); the directors Sir Alexander Korda

(Sandor Corda, b.Hungary, 1893–1956), Sir Alfred Hitchcock (1899–1980), Sir Carol Reed (1906–76), Sir David Lean (1908–91), and Sir Richard Attenborough (b.1923); and actors Cary Grant (Archibald Alexander Leach, 1904–86), Sir Alec Guinness (1914–2000), Deborah Kerr (b.1921), Welsh-born Richard Burton (1925–84), Irish-born Peter O'Toole (b.1932), Maggie Natalie Smith (b.1934), Vanessa Redgrave (b.1937), and Glenda Jackson (b.1936).

### Architects

Great English architects were Inigo Jones (1573–1652) and Sir Christopher Wren (1632–1723). Famous artists include William Hogarth (1697–1764), Sir Joshua Reynolds (1723–92), Thomas Gainsborough (1727–88), Joseph Mallord William Turner (1775–1851), John Constable (1776–1837), the illustrator Aubrey Beardsley (1872–98), Graham Sutherland (1903–80), Francis Bacon (b.Ireland, 1910–92), and David Hockney (b.1937). Roger Eliot Fry (1866–1934) and Kenneth Mackenzie Clark (Lord Clark, 1903–83) were influential art critics. Sir Jacob Epstein (b.US, 1880–1959), Henry Moore (1898–1986), and Dame Barbara Hepworth (1903–75) are world-famous British sculptors. The most famous British potter was Josiah Wedgwood (1730–95).

### Composers

English composers of note include John Dunstable (1370?–1453), whose works exerted a profound influence on continental musicians; William Byrd (1543–1623) and Orlando Gibbons (1583–1625), who were proficient in both sacred and secular music; the great lutenist and songwriter John Dowland (1563–1626); the madrigalists John Wilbye (1574–1638) and Thomas Weelkes (1575?–1623); Henry Purcell (1659?–95), a brilliant creator of vocal and chamber works; German-born George Frederick Handel (Georg Friedrich Händel, 1685–1759), a master of baroque operas, oratorios, and concerti; and Sir Arthur Seymour Sullivan (1842–1900), whose musical settings of the librettos of Sir William Schwenk Gilbert (1836–1911) are among the most popular comic operas of all time. Significant 20th-century figures include Sir Edward Elgar (1857–1934), Frederick Delius (1862–1934), Ralph Vaughan Williams (1872–1958), Sir William Walton (1902–83), Sir Michael Kemp Tippett (b.1905), Edward Benjamin Britten (Baron Britten, 1913–76), Peter Maxwell Davies (b.1934), and, in popular music, John Winston Lennon (1940–80) and James Paul McCartney (b.1942) of the Beatles. Notable performers include pianists Dame Myra Hess (1890–1965) and Sir Clifford Curzon (1907–82), violinist Sir Yehudi Menuhin (1916–1999), guitarist-lutenist Julian Bream (b.1933), singers Sir Peter Pears (1910–86) and Dame Janet Baker (b.1933), and conductors Sir Thomas Beecham (1879–1961), Sir Adrian Boult (1889–1983), Sir John Barbirolli (1899–1970), Sir Georg Solti (b.Hungary, 1912–1997), and Sir Colin Davis (b.1927).

### Athletes

Notable British athletes include Sir Roger Bannister (b.1929), who on 6 May 1954 became the first person to run a mile in under four minutes; golfer Tony Jacklin (b.1944), winner of the British Open in 1969 and the US Open in 1970; three-time world champion John Young “Jackie” Stewart (b.1939), a Scottish race-car driver; and the yachtsman Sir Francis Chichester (1901–72), winner of the first single-handed transatlantic race (1970) and the first sailor to make a solo circumnavigation of the globe (1966–67).

### Natives of Scotland and Wales

Duncan I (r.1034–40) was the first ruler of the historical kingdom of Scotland. Macbeth (r.1040–57), who killed Duncan and seized the throne, furnished the subject of one of Shakespeare's greatest plays. Margaret (d.1093), Duncan's daughter-in-law, reformed

the Church, won fame for piety and charity, and was made a saint. William Wallace (1272?–1306) led a rebellion against the English occupation. Robert the Bruce (1274–1329), ruler of Scotland (1306–29), won its independence from England. Mary, Queen of Scots (Mary Stuart, 1542–87), a romantic historical figure, is the subject of many plays and novels. Her son James VI (1566–1625) became England's King James I.

Before the union with England, outstanding poets writing in Scottish include Robert Henryson (1425?–1500?), William Dunbar (1460?–1520?), Gavin Douglas (1474–1522), and Sir David Lindsay (1490?–1555). One of the finest Scottish poets was William Drummond (1585–1649). Sir Thomas Urquhart (1611–60) produced a noted translation of Rabelais. John Knox (1514?–72) was the founder of Presbyterianism. David Hume (1711–76) was an outstanding philosopher and historian. Economist and philosopher Adam Smith (1723–90) influenced the development of world economy and politics. James Boswell (1740–95) wrote the brilliant *Life of Samuel Johnson*. The 18th century produced several important poets, notably Allan Ramsay (1686–1758), James Thomson (1700–48), James Macpherson (1736–96), and the national poet of Scotland, Robert Burns (1759–96). A major 19th-century essayist and social critic was Thomas Carlyle (1795–1881). Scottish novelists of prominence include Tobias George Smollett (1721–71); Sir Walter Scott (1771–1832); Robert Louis Stevenson (1850–94), also a poet; John Buchan, first Lord Tweedsmuir (1875–1940); and Sir James Matthew Barrie (1860–1937), who also wrote popular plays.

Distinguished figures who were active primarily in Wales include the 6th-century monk Dewi (d.588?), who became St. David, the patron saint of Wales; Rhodri the Great (844–77), who attained rule over most of Wales and founded two great ruling houses; Howel the Good (Hywel Dda, 910–50), whose reformed legal code became the standard of Welsh law for centuries; the Lord Rhys ap Gruffydd (1155–97), ruler of southern Wales, who founded the national Eisteddfod; Dafydd ap Gwilym (fl.1340–70), a remarkable poet; and Owen Glendower (Owain ap Gruffydd, 1359?–1416), the national hero of Wales, who led a rebellion against English rule. Bishop William Morgan (1541?–1604) made a Welsh translation of the Bible which, with revisions, is still in use. Among literary figures are Ellis Wynne (1671–1734), Daniel Owen (1836–95), and Sir Owen Morgan Edwards (1858–1920).

Two natives of Northern Ireland—Betty Williams (b.1943), a Protestant, and Mairead Corrigan (b.1944), a Roman Catholic—received the Nobel Peace Prize (awarded in 1977) for their leadership of a peace movement in Ulster.

## 49 DEPENDENCIES

British overseas dependencies include the British Indian Ocean Territory and St. Helena (described in the *Africa* volume under UK African Dependencies); and Bermuda, the British Antarctic Territory, the British Virgin Islands, the Cayman Islands, the Falkland Islands, The Turks and Caicos Islands, Anguilla and Montserrat (described in the *Americas* volume under UK American Dependencies).

### Gibraltar

The colony of Gibraltar (5.83 sq km/2.25 sq mi in area), the smallest UK dependency, is a narrow peninsula connected to the southwest coast of Spain. From a low, sandy plain in the north, it rises sharply in the 430-m (1,400-ft) Rock of Gibraltar, a shrub-covered mass of limestone, with huge caves. Gibraltar has a pleasantly temperate climate, except for occasional hot summers. Average annual rainfall is 89 cm (35 in). There is a rainy season from December to May. The resident civilian population, almost entirely of European origin, was estimated at 27,714 in mid-2002. Gibraltar is an important port of call for cargo and passenger ships. There is a naval base at the northeast gate of the

Strait of Gibraltar and a military airfield that is used by private companies. Telegraph, radio, and television are privately operated. The telephone system is government owned.

Known as Calpe in ancient times, Gibraltar was successively occupied by Phoenicians, Carthaginians, Romans, and Visigoths. Its strategic value was recognized early. In AD 711, it was captured by Moors under Tariq, and since then it has been known as Jabal Tariq or Gibraltar. It remained in Moor hands, except for short periods, until Spain took it in 1462. In 1704, a combined English-Dutch fleet captured Gibraltar, and it was officially transferred to Britain by the Treaty of Utrecht in 1713. Since 1964, Spain has tried to negotiate the return of Gibraltar to Spanish control. However, in a referendum held in 1967, Gibraltarians voted overwhelmingly (12,138 to 44) to retain their link with Britain. Since then, Spain has continued to raise the issue at the UN and put direct pressure on the Gibraltarians by closing the land frontier between the peninsula and the Spanish mainland and suspending the ferry service between Gibraltar and Algeciras; the border was reopened to limited pedestrian traffic in December 1982 and fully reopened in February 1985.

Under the 1969 constitution, Gibraltar is governed by a House of Assembly with 18 members, 15 of whom are elected by popular vote. The governor (who is also commander of the fortress) retains direct responsibility for defense and external affairs and can intervene in domestic affairs.

Gibraltar was once largely dependent on British subsidies, but in the late 1990s had made the transition to private sector industry. Tourism (with about 6 million visitors annually), reexports (largely fuel for shipping), shipping services, and duties on consumer goods contribute to the economy. Local industries are tobacco and coffee processing. The Gibraltar pound is at par with the British pound. The financial sector accounts for about 15% of GDP. Exports in 1998 (mainly reexports of petroleum and petroleum products) totaled an estimated US\$81.1 million, and imports US\$492 million. There is an income tax and an estate duty.

Illiteracy is negligible. Education is compulsory between the ages of 5 and 15. There are 12 primary schools, two single-sex comprehensive secondary schools, and the College of Further Education. The armed forces have their own schools; attendance by civilian children is available. Language spoken at home include Spanish, Italian, and Portuguese, but the language of business and schools is English. The colony has a serious housing shortage.

#### Pitcairn Island

Pitcairn is a mountainous island of volcanic origin about 4.5 sq km (1.75 sq mi) in area, in the South Pacific at 25°4' S and 130°6' W. Three smaller islands (Henderson, Ducie, and Oeno) associated with Pitcairn are uninhabited. Pitcairn Island was discovered in 1767 by the British and settled in 1790 by H.M.S. *Bounty* mutineers and the Polynesian women who accompanied them from Tahiti. The population, mainly descendants of the *Bounty* mutineers, after reaching a peak of 233 in 1937, decreased to 120 in 1962 and to about 52 in 1992 to 47 in 2002. Most of the younger members of the community have migrated to New Zealand. The climate is warm, with very little change throughout the year.

There is one village, Adamstown. Pitcairn is administered, together with the three other small islands, as a UK colony by the UK high commissioner in New Zealand. The local government consists of an island magistrate and a 10-member Island Council. Six of the Council's members are elected. New Zealand dollars (NZ\$) are used locally; NZ\$1 = US\$0.5132 (or US\$1 = NZ\$1.9486). There is no port or harbor; goods from ships are conveyed ashore in longboats. Cargo ships plying the route between Panama and New Zealand call periodically.

The main occupation is subsistence agriculture. A small surplus of fresh fruit and vegetables is sold to passing ships. Fish are abundant. Imports, mainly food, come from New Zealand. Fruit, woven baskets, carved curios, and stamps are sold to ships' passengers.

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# VATICAN

The Holy See (State of the Vatican City)  
*Santa Sede (Stato della Città del Vaticano)*

**CAPITAL:** Vatican City

**FLAG:** The flag consists of two vertical stripes, yellow at the hoist and white at the fly. On the white field, in yellow, are the crossed keys of St. Peter, the first pope, surmounted by the papal tiara (triple crown).

**ANTHEM:** *Pontifical March* (no words).

**MONETARY UNIT:** In 1930, after a lapse of 60 years, the Vatican resumed issuance of its own coinage—the lira (L)—but it agreed to issue no more than 300 million lire in any year. There are coins of 10, 20, 50, 100, and 500 lire. Both Italy and the Vatican adopted the euro as official currency in 2002. The euro is divided into 100 cents. There are coins in denominations of 1, 2, 5, 10, 20, and 50 cents and 1 euro and 2 euros. There are notes of 5, 10, 20, 50, 100, 200, and 500 euros. The Vatican lira is fixed at 1,936.17 lire per euro. As of May 2003, €1 = \$1.0977 (or \$1 = €0.911).

**WEIGHTS AND MEASURES:** The metric system is in use.

**HOLIDAYS:** Roman Catholic religious holidays; the coronation day of the reigning pope; days when public consistory is held.

**TIME:** 1 PM = noon GMT.

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## <sup>1</sup>LOCATION, SIZE, AND EXTENT

Located within Rome, Vatican City is the smallest state in Europe and in the world. It is a roughly triangular area of 0.44 sq km (0.17 sq mi) lying near the west bank of the Tiber River and to the west of the Castel Sant'Angelo. On the w and s it is bounded by the Leonine Wall. The Vatican area comprises the following: St. Peter's Square, enclosed by Giovanni Lorenzo Bernini's quadruple colonnade; St. Peter's Basilica, the largest Christian church in the world, to which the square serves as an entrance; a quadrangular area north of the square in which there are administrative buildings and Belvedere Park; the pontifical palaces, or the Vatican proper, lying west of Belvedere Park; and the Vatican Gardens, which occupy about half the acreage.

Outside Vatican City itself, extraterritoriality is exercised over a number of churches and palaces in Rome, notably the Lateran Basilica and Palace in the Piazza San Giovanni, the Palace of San Callisto at the foot of the Janiculum hill, and the basilicas of Santa Maria Maggiore and San Paolo fuori le Mura. Extraterritoriality outside the city of Rome extends to the papal villa and its environs (almost 40 hectares/100 acres) at Castel Gandolfo, 24 km (15 mi) SE of Rome, and to the area (about 420 hectares/1,040 acres) at Santa Maria di Galeria, some 19 km (12 mi) N of Rome, where a Vatican radio station was established in 1957.

## <sup>2</sup>TOPOGRAPHY

Vatican City lies on a slight hill not far from the Tiber River.

## <sup>3</sup>CLIMATE

Winters are mild, and although summer temperatures are high during the day, the evenings are cold. Temperatures in January average 7°C (45°F); in July, 24°C (75°F). There is little rain from May to September; October and November are the wettest months.

## <sup>4</sup>FLORA AND FAUNA

The gardens are famous for their fine collection of orchids and other exotic flora. Vatican City, being entirely urban, does not have a distinctive fauna.

## <sup>5</sup>ENVIRONMENT

The environment of Vatican City is similar to that of Rome (See Italy).

## <sup>6</sup>POPULATION

The population of Holy See (Vatican City) in 2003 was estimated by the United Nations at 1,000, including Italian nationals. It is the least populated of the 193 nations of the world. The growth rate is 1.2%. About 400 inhabitants have citizenship, including the pope, cardinals resident in Rome, diplomats of the Vatican, and Swiss Guards. The population density in 2002 was 5298 per sq mi.

## <sup>7</sup>MIGRATION

Does not apply.

## <sup>8</sup>ETHNIC GROUPS

Although the citizenry of the Vatican includes cardinals and other clergymen from all parts of the world, most of the inhabitants are Italian. The members of the Swiss Guard are a notable exception.

## <sup>9</sup>LANGUAGES

Italian is the official language of Vatican City, but Latin is the official language of the Holy See (the seat of jurisdiction of the pope as spiritual leader) and is employed for most papal encyclicals and other formal pronouncements. As the ordinary working language, Italian is in greater use.

## <sup>10</sup>RELIGIONS

Vatican City is the center of the worldwide organization of the Roman Catholic Church and the seat of the pope. Roman

Catholicism is the official religion and the primary business of the state itself.

## 1<sup>1</sup>TRANSPORTATION

Vatican City is easily reached by the public transportation system of Rome. It has its own railroad station, with 862 m (2,828 ft) of track, which connect to Italy's network at Rome's Saint Peter's station. Vatican City also has a helicopter landing pad.

## 1<sup>2</sup>HISTORY

Since the time of St. Peter, regarded by the Church as the first pope, Rome has been the seat of the popes, except in periods of great turbulence, when the pontiffs were forced to take refuge elsewhere, most notably in Avignon, France, from 1309 to 1377. The Roman papal residence before modern times was usually in the Lateran or Quirinal rather than in the Vatican Palace.

The Vatican City State and the places over which the Vatican now exercises jurisdiction are the sole remnants of the States of the Church, or Papal States, which at various times, beginning in 755, included large areas in Italy and, until the French Revolution, even parts of southern France. Most of the papal domain fell into the hands of King Victor Emmanuel II in 1860 in the course of the unification of Italy. By 1870, Pope Pius IX, supported by a garrison of French troops, retained rule over only the besieged city of Rome and a small territory surrounding it. Upon the withdrawal of the French garrison to take part in the Franco-Prussian War, the walls of Rome were breached by the besieging forces on 20 September, and the city fell. On 2 October, following a plebiscite, the city was annexed to the kingdom of Italy and made the national capital.

In May 1871, the Italian government promulgated a Law of Guarantees, which purported to establish the relations between the Italian kingdom and the papacy. The enactment declared the person of the pope to be inviolate, guaranteed him full liberty in his religious functions and in the conduct of diplomatic relations, awarded an annual indemnity in lieu of the income lost when the Papal States were annexed, and provided the right of extraterritoriality over the Vatican and the papal palaces. Pius IX refused to accept the law or the money allowance; he and his successors chose to become "prisoners of the Vatican." Until 1919, Roman Catholics were prohibited by the papacy from participating in the Italian government.

The so-called Roman Question was brought to an end by the conclusion on 11 February 1929 of three Lateran treaties between the Vatican and Italy. One treaty recognized the full sovereignty of the Vatican and established its territorial extent. Another treaty was a concordat establishing the Roman Catholic Church as the state church of Italy. The remaining treaty awarded the Vatican 750 million old lire in cash and one billion old lire in interest-bearing state bonds in lieu of all financial claims against Italy for annexing the Papal States. The constitution of the Italian Republic, adopted in 1947, substantially embodies the terms of the Lateran treaties. In 1962–65, the Vatican was the site of the Second Vatican Council, the first worldwide council in almost a century. Convened by Pope John XXIII and continued under Paul VI, the Council resulted in modernization of the Church's role in spiritual and social matters.

Ecumenism was the hallmark of the reign (1963–78) of Pope Paul VI. In a move to further Christian unity, he met with Athenagoras, the ecumenical patriarch of the Eastern Orthodox Church, in Jerusalem in 1964. In 1973, Paul VI conferred with the Coptic Orthodox patriarch of Alexandria; later in that same year, he met the exiled Dalai Lama, the first such meeting between a pope and a Buddhist leader. Steps were also taken to improve Roman Catholic-Jewish relations, including a 1965 declaration that Jews are not to be held collectively guilty of the death of Jesus. On doctrinal questions Pope Paul VI was generally conservative, reaffirming papal infallibility, disciplining dissident

priests, and reiterating traditional Church opposition to all "artificial" methods of contraception, including abortion and sterilization. In September 1972, the concept of an all-male celibate priesthood was upheld.

Pope Paul VI was succeeded by Pope John Paul I, who reigned for only 34 days. John Paul I's sudden death, on 28 September 1978, brought about the election of Polish Cardinal Karol Wojtyla as John Paul II, the first non-Italian pontiff elected in over 450 years. As pope, John Paul II has traveled widely, a practice begun by Paul VI. He has likewise established himself as a conservative in doctrinal matters, as indicated in 1982 by his elevation to the status of personal prelature of *Opus Dei*, an international organization of 72,000 laity and priests known for its doctrinal fidelity. He continues to rail against materialism and moral laxity and opposed the "morning after" pill for rape victims of Serbian aggression in Kosovo in 1999. He absolutely rejects abortion and contraception. The pope also reaffirmed the male priesthood in 1999. On 13 May 1981, John Paul II was wounded in Vatican Square by a Turkish gunman, who is serving a life sentence. The alleged accomplices, three Bulgarians and three Turks, were acquitted of conspiracy in the assassination attempt on 29 March 1986 because of lack of evidence.

The Lateran treaties of 1929 were superseded in 1984 by a new concordat under which the pope retains temporal authority over Vatican City but Roman Catholicism is no longer Italy's state religion.

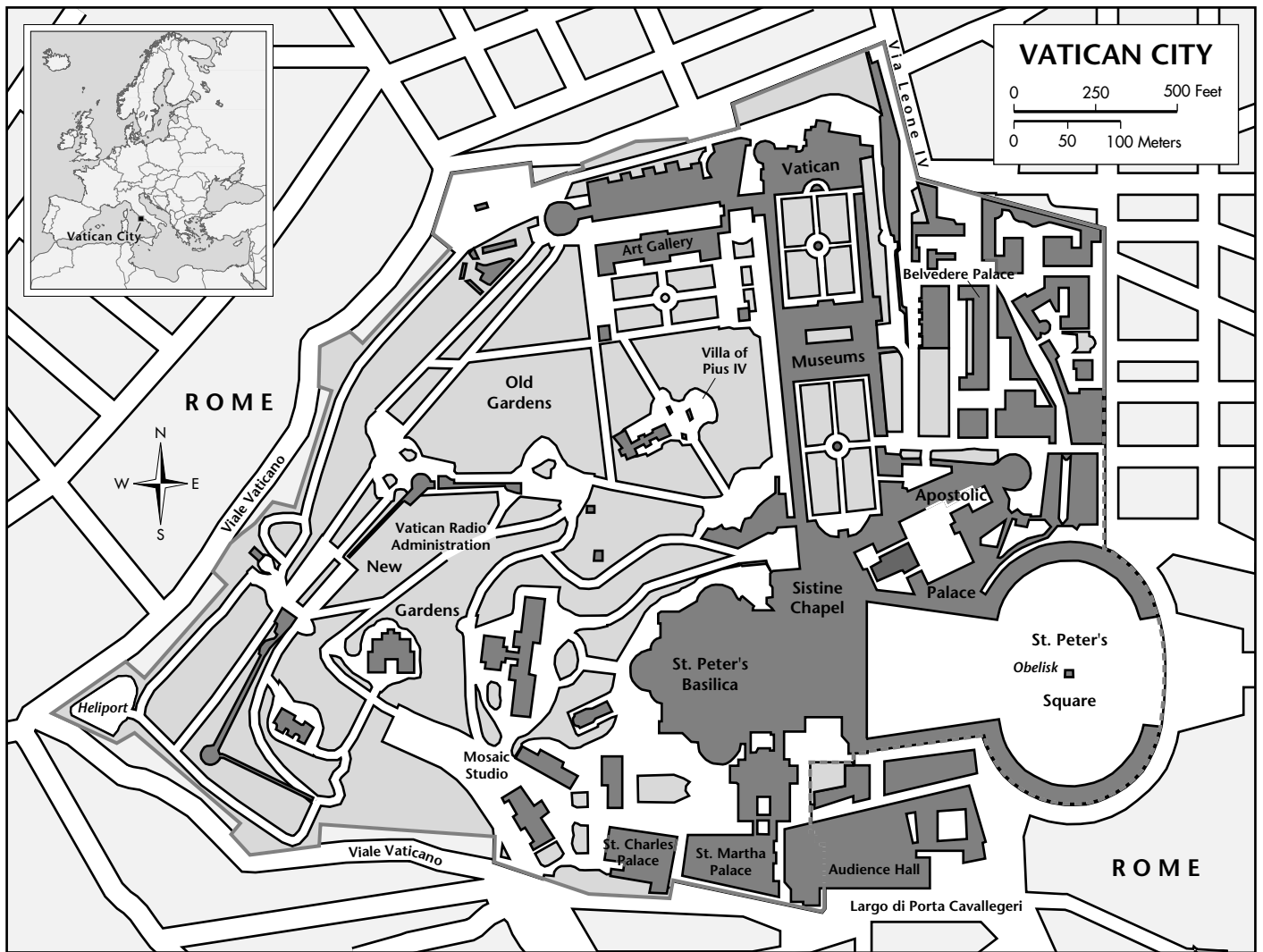
Throughout the 1990s, the pope has tried to build bridges to the Islamic world. Iran's president visited the Vatican in 1999 and a controversial trip to Iraq to talk to Saddam Hussein was cancelled that same year. Pope John Paul II, however, traveled to Israel in March 2000 where he visited different Holocaust memorials during this trip and also went to Bethlehem to reaffirm the Holy See's support for an independent Palestinian homeland.

John Paul II came out against embryonic or stem-cell research in 2001, stating it would lead to other evils such as "euthanasia and infanticide." Following the 11 September 2001 terrorist attacks on the United States, John Paul II urged harmony between Christians and Muslims. He initially stated that conflicts must not be resolved by force, but by peaceful negotiation; however, he subsequently indicated the United States might need to use force against terrorists in the name of self-defense. When the Al Qsa intifada—begun in September 2000 in Israel and the West Bank and Gaza Strip—intensified in the spring of 2002, John Paul II appealed for peace in the region, saying "nothing is resolved by war." He also reasserted his firm belief in peace over the use of force during the 2002–03 diplomatic and military crisis in Iraq. John Paul II had made himself available as a mediator between Iraqi Deputy Prime Minister Tariq Aziz and British Prime Minister Tony Blair prior to the outbreak of hostilities on 19 March 2003, but his criticism of the conflict did not prevent war. Following the defeat of the Saddam Hussein-regime in April 2003, John Paul II stated the Iraqi people should be responsible for the rebuilding of Iraq, while working closely with the international community, meaning the UN.

The Vatican announced in December 2002 it would open its archives relating to interactions with Nazi Germany from 1922–39 to scholars. The Catholic Church has been criticized for not doing enough to stop the persecution of Jews during the Holocaust.

Following the eruption of sex scandals in the United States regarding pedophile priests, John Paul II called for an emergency meeting with US cardinals in April 2002. US bishops had approved a "zero tolerance" policy on priests accused of sexual abuse, which would have priests suspended immediately following an accusation of abuse, but the Vatican demanded certain protections for the rights of priests.

In May 2003, the Vatican officially confirmed the pope suffered from Parkinson's disease. Prior to the announcement, the



BOUNDARY LENGTHS: Italy, 3.2 kilometers (2 miles).

Vatican did not publicly acknowledge what ailments John Paul II was subjected to. He also suffers from severe arthritis. In an acknowledgement of his age and frailty, John Paul II in May 2003 stated his judgment day was drawing near.

### 13 GOVERNMENT

The pope is simultaneously the absolute sovereign of the Vatican City State and the head of the Roman Catholic Church throughout the world. Since 1984, the pope has been represented by the cardinal secretary of state in the civil governance of Vatican City. In administering the government of the Vatican, the pope is assisted by the Pontifical Commission for the Vatican City State. Religious affairs are governed under the pope's direction by a number of ecclesiastical bodies known collectively as the Roman Curia.

The Pontifical Commission consists of seven cardinals and a lay special delegate, assisted since 1968 by a board of 21 lay advisers. Under the commission are the following: a central council (heading various administrative offices); the directorships of museums, technical services, economic services (including the postal and telegraph systems), and medical services; the guard; the Vatican radio system and television center; the Vatican observatory; and the directorship of the villa at Castel Gandolfo, the traditional summer residence of popes.

Much of the work of the Roman Curia is conducted by offices called sacred congregations, each headed by a cardinal appointed for a five-year period. These are the Sacred Congregation for the Doctrine of the Faith (responsible for faith and morals, including the examination and, if necessary, prohibition of books and other writings), the Sacred Congregation for Bishops (diocesan affairs), the Sacred Congregation for the Eastern Churches (relations between Eastern and Latin Rites), the Sacred Congregation for the Sacraments, the Sacred Congregation for Divine Worship, the Sacred Congregation for the Clergy, the Sacred Congregation for Religious Orders and Secular Institutes (monastic and lay communities), the Sacred Congregation for the Evangelization of Peoples (missions), the Sacred Congregation for the Causes of Saints (beatification and canonization), and the Sacred Congregation for Catholic Education (seminaries and religious schools). There are also secretariats for Christian unity, non-Christians, and nonbelievers, and there are permanent and temporary councils and commissions for various other functions.

A pope serves from his election until death. On his decease, the College of Cardinals is called into conclave to choose a successor from their number. The usual method is to vote on the succession; in this case, the cardinal who receives two-thirds plus one of the votes of those present is declared elected. Pending the election, most Vatican business is held in abeyance.

Before the reign of Pope John XXIII, the size of the College of Cardinals was limited to 70. Pope John raised the membership to 88, and his successor, Pope Paul VI, increased the number to 136. Paul VI also decreed that as of 1 January 1971, cardinals would cease to be members of departments of the Curia upon reaching the age of 80 and would lose the right to participate in the election of a pope. In 2001, Pope John Paul II created 44 new cardinals, and the number of cardinals in the college at that time was 184, representing 68 countries.

## **14**POLITICAL PARTIES

Does not apply.

## **15**LOCAL GOVERNMENT

Does not apply.

## **16**JUDICIAL SYSTEM

For ordinary legal matters occurring within Vatican territory, there is a tribunal of first instance. Criminal cases are tried in Italian courts. There are three tribunals at the Vatican for religious cases. The Apostolic Penitentiary determines questions of penance and absolution from sin. The Roman Rota deals principally with marital issues but is also competent to handle appeals from any decisions of lower ecclesiastical courts. In exceptional cases, the Supreme Tribunal of the Apostolic Signature hears appeals from the Rota, which ordinarily is the court of last resort.

New codes of canon law for the government of the Latin Rite churches and the administration of the Curia were promulgated in 1918 and 1983. Eastern Rite churches have their own canon law.

## **17**ARMED FORCES

The papal patrol force now consists only of the Swiss Guard, who, sometimes armed with such ceremonial weapons as halberds, walk their posts in picturesque striped uniforms supposedly designed by Michelangelo. The force was founded in 1506 and is recruited from several Roman Catholic cantons of Switzerland. It now numbers approximately 100 members. There is also a civilian security force, responsible to the Central Office of Security, which protects Vatican personnel and property and the art treasures owned by the Church. The Vatican maintains its own jail.

## **18**INTERNATIONAL COOPERATION

Vatican City's diplomatic relations are conducted by its secretariat of state and the Council for Public Affairs of the Church. The Vatican has permanent observer status at the UN, IOM, OAS, WHO, and WTO. It is a member of IAEA, ITU, OSCE, UNCTAD, UNHCR, UPU, and WIPO.

## **19**ECONOMY

The Vatican, being essentially an administrative center, is dependent for its support on the receipt of charitable contributions, the fees charged those able to pay for the services of the congregations and other ecclesiastical bodies, and interest on investments. Funds are also raised from the sale of stamps, religious literature, and mementos and from museum admissions. Vatican City's economy is not commercial in the usual sense.

## **20**INCOME

The US Central Intelligence Agency (CIA) reports that in 1992 the Holy See's gross domestic product (GDP) was estimated at \$92 million. The CIA defines GDP as the value of all final goods and services produced within a nation in a given year and computed on the basis of purchasing power parity (PPP) rather than value as measured on the basis of the rate of exchange.

## **21**LABOR

The labor force consists mainly of priests and other ecclesiastics, who serve as consultants or councilors; about 3,000 laborers, who live outside the Vatican; the guards; the nuns, who do the cooking, cleaning, laundering, and tapestry repair; and the cardinals, archbishops, bishops, and other higher dignitaries. Some ecclesiastical officials live outside Vatican City and commute from the secular city. The Association of Vatican Lay Workers, a trade union, has 1,800 members.

Lay employees of the Vatican have always had to be Roman Catholics and swear loyalty to the Pope. Under a new set of rules of conduct implemented in October 1995, new employees have to sign a statement binding them to observe the moral doctrines of the Roman Catholic Church.

## **22**AGRICULTURE

Does not apply.

## **23**ANIMAL HUSBANDRY

Does not apply.

## **24**FISHING

Does not apply.

## **25**FORESTRY

Does not apply.

## **26**MINING

Did not apply.

## **27**ENERGY AND POWER

Electric power is supplied by Italy, but the Vatican's generating plant had a capacity of 5,000 kW in 1990.

## **28**INDUSTRY

A studio in the Vatican produces mosaic work, and a sewing establishment produces uniforms. There is a large printing plant, the Vatican Polyglot Press.

## **29**SCIENCE AND TECHNOLOGY

The Vatican promotes the study of science and mathematics through the Pontifical Academy of Sciences, which dates from 1603. The Vatican Observatory was begun by Pope Gregory XIII. It has modern instruments, an astrophysics laboratory, and a 33,000-volume library.

## **30**DOMESTIC TRADE

The Vatican is basically a noncommercial economy, with no major imports or exports. Primary domestic industries include printing, mosaics, and staff uniforms. Products for retail sale are primarily postage stamps, tourist souvenirs, and publications.

## **31**FOREIGN TRADE

Does not apply, as the Vatican does not really have foreign trade. Its entire economy is based on tourism and donations (known as Peter's Pence) from Catholics around the world. However, the Vatican remains extremely wealthy despite its complete lack of natural resources because of the priceless artwork it possesses.

## **32**BALANCE OF PAYMENTS

Does not apply.

## **33**BANKING AND SECURITIES

The Vatican bank, known as the Institute for Religious Works (Istituto per le Opere di Religione-IOR), was founded in 1942. It carries out fiscal operations and invests and transfers the funds of the Vatican and of Roman Catholic religious communities



throughout the world. The Administration of the Patrimony of the Holy See manages the Vatican's capital assets.

### 34 INSURANCE

Does not apply.

### 35 PUBLIC FINANCE

State income is derived from fees paid by the public for visiting the art galleries and from the sale of Vatican City postage stamps, tourist mementos, and publications. The Vatican also receives income in the form of voluntary contributions (Peter's pence) from all over the world and from interest on investments. The Prefecture for Economic Affairs coordinates Vatican finances. The US Central Intelligence Agency estimates that average annual government revenues in the mid-1990s totaled approximately \$175.5 million and expenditures \$175 million.

### 36 TAXATION

Residents of Vatican City pay no taxes.

### 37 CUSTOMS AND DUTIES

Vatican City imposes no customs tariffs.

### 38 FOREIGN INVESTMENT

No recent figures are available.

### 39 ECONOMIC DEVELOPMENT

The Vatican administers industrial, real estate, and artistic holdings valued in the hundreds of millions of dollars. Investments have been in a wide range of enterprises, with makers of contraceptives and munitions specifically excepted.

### 40 SOCIAL DEVELOPMENT

Celibacy is required of all Roman Catholic clergy, except permanent deacons. The Church upholds the concept of family planning through such traditional methods as rhythm and abstinence but resolutely opposes such "artificial methods" as contraceptive pills and devices, as well as abortion and sterilization. Five important papal encyclicals—*Rerum Novarum* (1870), *Quadragesimo Anno* (1931), *Mater et Magistra* (1961), *Pacem in Terris* (1963), and *Laborem Exercens* (1981)—have enunciated the Church position on matters of workers' rights and social and international justice.

### 41 HEALTH

The health services directorate, under the Pontifical Commission for the Vatican City State, is responsible for health matters.

### 42 HOUSING

Information is not available.

### 43 EDUCATION

The Vatican is a major center for higher Roman Catholic education, especially of the clergy being trained for important positions. Adult literacy is 100%. About 65 papal educational institutions are scattered throughout Rome; some of the more important (all prefixed by the word "Pontifical") are the Gregorian University, the Biblical Institute, the Institute of Oriental Studies, the Lateran Athenaeum, the Institute of Christian Archaeology, and the Institute of Sacred Music. There were a total of 14,403 students in 1996 with 1,872 teaching staff in all higher-level institutions.

### 44 LIBRARIES AND MUSEUMS

The Apostolic Library of the Vatican is one of the most famous in the world. Founded in 1450 by Pope Nicholas V, the collection includes more than 1.1 million books, 72,000 manuscripts, 8,300 incunabula, 80,000 archival files, and 100,000 engravings. The

Vatican Secret Archives, so called because originally they were strictly private records of the Vatican affairs, were opened to students in 1880. There are, in addition, several university and college libraries, many of which hold impressive historical collections. Literary scholars come from all over the world to study the collection of manuscripts. In 1994, librarians began entering the entire card catalogue of printed books into a computerized file accessible via the Internet.

Besides over a dozen museums, some of which figure among the greatest in the world, Vatican City includes as part of its decoration frescoes painted by Raphael (in the Stanze), Michelangelo (in the Sistine and Pauline Chapels), and other great Renaissance artists. In April 1994, after more than 14 years of careful cleaning, Michelangelo's frescoes became fully visible again. Among the museums in the Vatican are the Pius Clementine, the Chiaramonti, and New Wing (exhibiting antique sculpture); the Gregorian Etruscan and the Gregorian Egyptian museums; the Pinacoteca (paintings); the Collection of Modern Religious Art; the frescoed chapels, rooms, and galleries; and the Sacred and the Profane museums, which are administered by the Vatican Library.

### 45 MEDIA

The state maintains its own telegraph and postal facilities and has a 2,000-line automatic telephone exchange tied into the Italian system. Radio Vatican, founded in 1931, comprises two facilities, one in Vatican City proper and the other outside Rome at Santa Maria di Galeria. There are 3 AM and 4 FM stations; in addition, shortwave broadcasts can reach the entire world. Programs in 34 languages are broadcast regularly. There is also one television station. The Vatican Television Center, founded in 1983, produces and distributes religious programs.

Vatican City is an important center for publishing. A semi-official newspaper of wide fame, *L'Osservatore Romano*, founded in 1861, is published daily, with an estimated 2002 circulation of 70,000 copies. Since 1934, the Vatican has also published *L'Osservatore della Domenica*, an illustrated weekly. The *Acta Apostolicae Sedis* (Record of the Apostolic See) appears regularly on a monthly basis and occasionally at other times; it publishes papal encyclicals and other official papers. An annual, the *Annuario Pontificio*, is issued as a record of the Vatican and the Roman Catholic hierarchy. The International Religious Press Service (Agenzia Internazionale Fides—AIF), founded in 1927, distributes news of missionary activity and publishes *Information* (weekly, in various languages, including English), *Documentation* (irregular), and *Photographic Service* (weekly).

In the mid-1990s, nearly 50 periodicals were published, with a total circulation of almost 60,000. The book publishers for the Vatican are the Vatican Editions (Libreria Editrice Vaticana), the Vatican Apostolic Library (Biblioteca Apostolica Vaticana), and the Vatican Polyglot Press (Tipografia Poliglotta Vaticana).

### 46 ORGANIZATIONS

The organizations at the Vatican are chiefly learned societies devoted to theology, science, archaeology, liturgy, and martyrdom. The Pontifical Academy of Sciences promotes study in mathematics and the physical and natural sciences. The Pontifical Council for Culture, founded in 1982, focuses on the study of unbelief and religious indifference, particularly concerning the cause and effect of non-religious or anti-religious attitudes in various cultures.

### 47 TOURISM, TRAVEL, AND RECREATION

The Vatican is regularly visited by tourists in Rome, as well as by pilgrims attracted by the jubilees proclaimed by the pope every 25 years and by other special occasions. While there are no public accommodations in the Vatican, special inexpensive facilities are often arranged in Rome for pilgrims. No passport or

identification is needed ordinarily for admission to the public parts of the Vatican.

#### 48 FAMOUS POPES

By virtue of their position of world importance, many popes are persons of fame. Among those who greatly increased the secular power of the papacy were St. Gregory I (the Great, 540?–604), pope from 590 to 604, who also was influential in matters of doctrine, liturgy, and missionary work; St. Gregory VII (Hildebrand, 1020?–1085), pope from 1073 to 1085, who engaged in conflict with Holy Roman Emperor Henry IV, forcing him to do public penance at the village of Canossa, and later was driven from Rome by him; and Alexander VI (Rodrigo Lanzol y Borja, b. Spain, 1431?–1503), pope from 1492 to 1503, who also divided colonial territories in the New World between Spain and Portugal.

The most significant 19th-century pope was Pius IX (Giovanni Maria Mastai-Ferretti, 1792–1878), pope from 1846 to 1878, who lost the Papal States to the kingdom of Italy and convened the First Vatican Council (1869–70), which established the doctrine of papal infallibility in matters of faith and morals. The first popes who reigned since the establishment of the Vatican City State in 1929 were Pius XI (Achille Damiano Ratti, 1857–1939), from 1922 to 1939, and Pius XII (Eugenio Pacelli, 1876–1958), from 1939 to 1958.

John XXIII (Angelo Giuseppe Roncalli, 1881–1963), pope from 1958 to 1963, made history by convening the Second Vatican Council (1962–65), by altering the text of the canon of the mass for the first time since the 7th century, and by strongly defining the position of the Church on problems of labor and social progress (in his encyclical *Mater et Magistra* of June 1961). His greatest achievement was generally considered to be his eighth encyclical, *Pacem in Terris* (issued on 10 April 1963), a profound plea for peace, in which he hailed the UN as a defender of human rights.

Paul VI (Giovanni Battista Montini, 1897–1978), pope from 1963 to 1978, continued Pope John's effort to attain unity of the Christian world. On 4 October 1965, he addressed the UN

General Assembly, appealing for world peace and international cooperation. He presided over the concluding sessions of the Second Vatican Council and traveled to many places, including the Holy Land.

Albino Luciani (1912–78), patriarch of Venice, was elected pope on 26 August 1978 and took the name John Paul I. He died on 28 September after a reign of only 34 days. His successor, John Paul II (Karol Wojtyła, b.1920), was elevated to the papacy on 16 October 1978. This former archbishop of Cracow was not only the first Polish pope but also the first non-Italian pope since the Renaissance. Despite suffering severe wounds in a 1981 assassination attempt, John Paul II has continued to travel widely. To the dismay of Jewish and other leaders, John Paul II granted Austrian President Kurt Waldheim (b.1918) an audience in June 1987, despite accusations that Waldheim had taken part in war crimes during World War II when he was an officer in the German army.

#### 49 DEPENDENCIES

The Vatican has no territories or colonies.

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# INDEX TO COUNTRIES AND TERRITORIES

This alphabetical list includes countries and dependencies (colonies, protectorates, and other territories) described in the encyclopedia. Countries and territories described in their own articles are followed by the continental volume (printed in *italics*) in which each appears. Country articles are arranged alphabetically in each volume. For example, Argentina, which appears in *Americas*, is listed this way: Argentina—*Americas*. Dependencies are listed here with the title of the volume in which they are treated, followed by the name of the article in which they are dealt with. In a few cases, an alternative name for the same place is given in parentheses at the end of the entry. The name of the volume *Asia and Oceania* is abbreviated in this list to *Asia*.

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Estonia—*Europe*  
Ethiopia—*Africa*
- Falkland Islands—*Americas*: UK American Dependencies  
    (Malvinas)  
Faroe Islands—*Europe*: Denmark  
Federated States of Micronesia—*Asia*  
Fiji—*Asia*  
Finland—*Europe*  
Former Yugoslav Republic of Macedonia—*Europe*  
Formosa—*Asia*: Taiwan  
France—*Europe*  
French African Dependencies—*Africa*  
French American Dependencies—*Americas*  
French Guiana—*Americas*: French American Dependencies  
French Pacific Dependencies—*Asia*  
French Polynesia—*Asia*: French Pacific Dependencies  
French Somaliland—*Africa*: Djibouti  
French Southern and Antarctic Lands—*Asia*: French  
    Pacific Dependencies  
Fujairah—*Asia*: United Arab Emirates
- Gabon—*Africa*  
Galapagos Islands—*Americas*: Ecuador  
Gambia—*Africa*  
Georgia—*Europe*  
German Democratic Republic (GDR)—*Europe*: Germany  
Germany—*Europe*  
Germany, East—*Europe*: Germany  
Germany, Federal Republic of (FRG)—*Europe*: Germany  
Germany, West—*Europe*: Germany  
Ghana—*Africa*  
Gibraltar—*Europe*: United Kingdom  
Gilbert Islands—*Asia*: Kiribati  
Graham Land—*Americas*: UK American Dependencies:  
    British Antarctic Territory  
Great Britain—*Europe*: United Kingdom  
Greece—*Europe*  
Greenland—*Europe*: Denmark  
Grenada—*Americas*  
Grenadines—*Americas*: Grenada; St. Vincent and the Grenadines  
Guadeloupe—*Americas*: French American Dependencies  
Guam—*Asia*: US Pacific Dependencies  
Guatemala—*Americas*
- Guiana, British—*Americas*: Guyana  
Guiana, Dutch—*Americas*: Suriname  
Guiana, French—*Americas*: French American Dependencies  
Guinea—*Africa*  
Guinea-Bissau—*Africa*  
Guinea, Portuguese—*Africa*: Guinea-Bissau  
Guyana—*Americas*
- Haiti—*Americas*  
Heard and McDonald Islands—*Asia*: Australia  
Honduras—*Americas*  
Honduras, British—*Americas*: Belize  
Hong Kong—*Asia*: China  
Howland, Baker, and Jarvis Islands—*Asia*: US Pacific  
    Dependencies  
Hungary—*Europe*
- Iceland—*Europe*  
Ifni—*Africa*: Morocco  
India—*Asia*  
Indochina—*Asia*: Cambodia; Laos; Vietnam  
Indonesia—*Asia*  
Inner Mongolia—*Asia*: China  
Iran—*Asia*  
Iraq—*Asia*  
Ireland—*Europe*  
Ireland, Northern—*Europe*: United Kingdom  
Irian Jaya—*Asia*: Indonesia  
Israel—*Asia*  
Italy—*Europe*  
Ivory Coast—*Africa*: Côte D'Ivoire
- Jamaica—*Americas*  
Jammu and Kashmir—*Asia*: India; Pakistan  
Jan Mayen Island—*Europe*: Norway  
Japan—*Asia*  
Johnston Atoll—*Asia*: US Pacific Dependencies  
Jordan—*Asia*  
Juan Fernandez Island—*Americas*: Chile
- Kampuchea—*Asia*: Cambodia  
Kashmir—*Asia*: India; Pakistan  
Kazakhstan—*Asia*  
Kazan Islands—*Asia*: Japan (Volcano Islands)  
Kenya—*Africa*  
Khmer Republic—*Asia*: Cambodia  
Kiribati—*Asia*  
Korea, Democratic People's Republic of (DPRK)—*Asia*  
Korea, North—*Asia*: Korea, Democratic People's Republic of  
Korea, Republic of (ROK)—*Asia*  
Korea, South—*Asia*: Korea, Republic of  
Kuwait—*Asia*  
Kyrgyzstan—*Asia*
- Laccadive, Minicoy, and Amindivi Islands—*Asia*: India:  
    Lakshadweep  
Lakshadweep—*Asia*: India  
Lao People's Democratic Republic—*Asia*  
Laos—*Asia*: Lao People's Democratic Republic  
Latvia—*Europe*  
Lebanon—*Asia*  
Leeward Islands—*Americas*: UK American Dependencies;  
    Antigua and Barbuda; St. Kitts and Nevis  
Lesotho—*Africa*  
Liberia—*Africa*  
Libya—*Africa*  
Liechtenstein—*Europe*

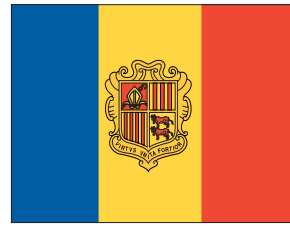
- Line Islands—*Asia*: Kiribati  
Lithuania—*Europe*  
Luxembourg—*Europe*
- Macau—*Asia*: China  
Macedonia, Former Yugoslav Republic of—*Europe*  
Macquarie Island—*Asia*: Australia  
Madagascar—*Africa*  
Madeira—*Europe*: Portugal  
Malagasy Republic—*Africa*: Madagascar  
Malawi—*Africa*  
Malaya—*Asia*: Malaysia  
Malaysia—*Asia*  
Malden and Starbuck Islands—*Asia*: Kiribati  
Maldivian Islands—*Asia*: Maldives  
Maldives—*Asia*  
Mali—*Africa*  
Malta—*Europe*  
Malvinas—*Americas*: UK American Dependencies  
(Falkland Islands)  
Mariana Islands—*Asia*: US Pacific Dependencies  
Marquesas Islands—*Asia*: French Pacific Dependencies:  
French Polynesia  
Marshall Islands—*Asia*  
Martinique—*Americas*: French American Dependencies  
Matsu Islands—*Asia*: Taiwan  
Mauritania—*Africa*  
Mauritius—*Africa*  
Mayotte—*Africa*: French African Dependencies  
Melilla—*Europe*: Spain  
Mexico—*Americas*  
Micronesia, Federated States of—*Asia*: Federated States  
of Micronesia  
Midway—*Asia*: US Pacific Dependencies  
Moldova—*Europe*  
Monaco—*Europe*  
Mongolia—*Asia*  
Montserrat—*Americas*: UK American Dependencies:  
Leeward Islands  
Morocco—*Africa*  
Mozambique—*Africa*  
Muscat and Oman—*Asia*: Oman  
Myanmar—*Asia*
- Namibia—*Africa*  
Nauru—*Asia*  
Navassa—*Americas*: US  
Nepal—*Asia*  
Netherlands—*Europe*  
Netherlands American Dependencies—*Americas*  
Netherlands Antilles—*Americas*: Netherlands American  
Dependencies  
Nevis—*Americas*: St. Kitts and Nevis  
New Caledonia—*Asia*: French Pacific Dependencies  
New Guinea—*Asia*: Papua New Guinea  
New Hebrides—*Asia*: Vanuatu  
New Zealand—*Asia*  
Nicaragua—*Americas*  
Nicobar Islands—*Asia*: India  
Niger—*Africa*  
Nigeria—*Africa*  
Niue—*Asia*: New Zealand  
Norfolk Island—*Asia*: Australia  
North Borneo—*Asia*: Malaysia  
Northern Ireland—*Europe*: United Kingdom  
Northern Mariana Islands—*Asia*: US Pacific Dependencies  
Northern Rhodesia—*Africa*: Zambia  
North Korea—*Asia*: Korea, Democratic People's Republic of  
North Vietnam—*Asia*: Vietnam  
Northwest Territories—*Americas*: Canada  
Norway—*Europe*  
Nosy Boraha and Nosy Be—*Africa*: Madagascar  
Nyasaland—*Africa*: Malawi
- Ocean Island—*Asia*: Kiribati (Banaba)  
Ogasawara Islands—*Asia*: Japan (Bonin Islands)  
Okinawa—*Asia*: Japan  
Oman—*Asia*  
Outer Mongolia—*Asia*: Mongolia
- Pacific Islands, Trust Territory of the—*Asia*: Federated States of  
Micronesia; Marshall Islands; Palau; US Pacific Dependencies  
Pakistan—*Asia*  
Pakistan, East—*Asia*: Bangladesh  
Palau—*Asia*  
Palmyra Atoll—*Asia*: US Pacific Dependencies  
Panama—*Americas*  
Papua New Guinea—*Asia*  
Paracel Islands—*Asia*: China (Xisha Islands)  
Paraguay—*Americas*  
Peru—*Americas*  
Peter I Island—*Europe*: Norway  
Petit Martinique—*Americas*: Grenada  
Philippines—*Asia*  
Phoenix Islands—*Asia*: Kiribati  
Pitcairn Island—*Europe*: United Kingdom  
Poland—*Europe*  
Polar Regions—*United Nations*  
Portugal—*Europe*  
Portuguese Timor—*Asia*: East Timor  
Puerto Rico—*Americas*: United States
- Qatar—*Asia*  
Queen Maud Land—*Europe*: Norway  
Quemoy Islands—*Asia*: Taiwan
- Ras al-Khaimah—*Asia*: United Arab Emirates  
Réunion—*Africa*: French African Dependencies  
Rhodesia—*Africa*: Zimbabwe  
Río Muni—*Africa*: Equatorial Guinea  
Romania—*Europe*  
Ross Dependency—*Asia*: New Zealand  
Ruanda-Urundi—*Africa*: Burundi; Rwanda  
Russia—*Europe*  
Rwanda—*Africa*  
Ryukyu Islands—*Asia*: Japan
- Sabah—*Asia*: Malaysia  
St. Christopher—*Americas*: St. Kitts and Nevis  
St. Christopher and Nevis—*Americas*: St. Kitts and Nevis  
St. Helena—*Africa*: UK African Dependencies  
St. Kitts—*Americas*: St. Kitts and Nevis  
St. Kitts and Nevis—*Americas*  
St. Lucia—*Americas*  
St. Pierre and Miquelon—*Americas*: French American  
Dependencies  
St. Vincent and the Grenadines—*Americas*  
Sala y Gómez Island—*Americas*: Chile  
Samoa—*Asia*  
Samoa, American—*Asia*: US Pacific Dependencies  
Samoa, Western—*Asia*: Samoa  
San Ambrosio Island—*Americas*: Chile  
San Andrés and Providencia—*Americas*: Colombia  
San Felix Island—*Americas*: Chile

- San Marino—*Europe*  
São Tomé and Príncipe—*Africa*  
Sarawak—*Asia*: Malaysia  
Sa‘udi Arabia—*Asia*  
Scotland—*Europe*: United Kingdom  
Senegal—*Africa*  
Serbia and Montenegro—*Europe*  
Seychelles—*Africa*  
Sharjah—*Asia*: United Arab Emirates  
Sierra Leone—*Africa*  
Sikkim—*Asia*: India  
Singapore—*Asia*  
Slovakia—*Europe*  
Slovenia—*Europe*  
Society Islands—*Asia*: French Pacific Dependencies:  
    French Polynesia  
Solomon Islands—*Asia*  
Somalia—*Africa*  
Somaliland, French—*Africa*: Djibouti  
South Africa—*Africa*  
South Arabia, Federation of—*Asia*: Yemen  
Southern Rhodesia—*Africa*: Zimbabwe  
Southern Yemen—*Asia*: Yemen  
South Georgia—*Americas*: UK American Dependencies:  
    Falkland Islands  
South Korea—*Asia*: Korea, Republic of  
South Vietnam—*Asia*: Vietnam  
South West Africa—*Africa*: Namibia  
Spain—*Europe*  
Spanish Guinea—*Africa*: Equatorial Guinea  
Spanish Sahara—*Africa*: Morocco  
Spratly Islands—*Asia*: Vietnam  
Sri Lanka—*Asia*  
Sudan—*Africa*  
Suriname—*Americas*  
Svalbard—*Europe*: Norway  
Swan Islands—*Americas*: US  
Swaziland—*Africa*  
Sweden—*Europe*  
Switzerland—*Europe*  
Syria—*Asia*
- Tahiti—*Asia*: French Pacific Dependencies: French Polynesia  
Taiwan—*Asia*  
Tajikistan—*Asia*  
Tanganyika—*Africa*: Tanzania  
Tanzania—*Africa*  
Thailand—*Asia*  
Tibet—*Asia*: China  
Timor, East—*Asia*  
Tobago—*Americas*: Trinidad and Tobago  
Togo—*Africa*  
Tokelau Islands—*Asia*: New Zealand  
Tonga—*Asia*  
Transkei—*Africa*: South African Homelands  
Trinidad and Tobago—*Americas*  
Tristan da Cunha—*Africa*: UK African Dependencies:  
    St. Helena
- Trust Territory of the Pacific Islands—*Asia*: Federated  
    States of Micronesia; Marshall Islands; Palau; US Pacific  
    Dependencies  
Tuamotu Islands—*Asia*: French Asian Dependencies:  
    French Polynesia  
Tunisia—*Africa*  
Turkey—*Asia*  
Turkmenistan—*Asia*  
Turks and Caicos Islands—*Americas*: United Kingdom American  
    Dependencies  
Tuvalu—*Asia*
- Uganda—*Africa*  
Ukraine—*Europe*  
Umm al-Qaiwain—*Asia*: United Arab Emirates  
Union of Soviet Socialist Republics (USSR)—*Asia*: Azerbaijan;  
    Kazakhstan; Kyrgyzstan; Tajikistan; Turkmenistan; Uzbekistan;  
    *Europe*: Armenia; Belarus; Estonia; Georgia; Latvia; Lithuania;  
    Moldova; Russia; Ukraine  
United Arab Emirates (UAE)—*Asia*  
United Arab Republic—*Africa*: Egypt  
United Kingdom (UK)—*Europe*  
United Kingdom African Dependencies—*Africa*  
United Kingdom American Dependencies—*Americas*  
United Kingdom Asian and Pacific Dependencies—*Europe*:  
    United Kingdom  
United States (US)—*Americas*  
United States Pacific Dependencies—*Asia*  
Upper Volta—*Africa*: Burkina Faso  
Uruguay—*Americas*  
Uzbekistan—*Asia*
- Vanuatu—*Asia*  
Vatican—*Europe*  
Venezuela—*Americas*  
Vietnam—*Asia*  
Vietnam, North—*Asia*: Vietnam  
Vietnam, South—*Asia*: Vietnam  
Virgin Islands, British—*Americas*: UK American Dependencies  
Virgin Islands of the US—*Americas*: United States  
Volcano Islands—*Asia*: Japan (Kazan Islands)
- Wake Island—*Asia*: US Pacific Dependencies  
Wales—*Europe*: United Kingdom  
Wallis and Futuna—*Asia*: French Asian Dependencies  
Western Sahara—*Africa*: Morocco  
Western Samoa—*Asia*: Samoa  
West Germany—*Europe*: Germany, Federal Republic of  
West Irian—*Asia*: Indonesia  
Windward Islands—*Americas*: Dominica; St. Lucia; St. Vincent  
    and the Grenadines
- Xisha Islands—*Asia*: China (Paracel Islands)
- Yemen, People’s Democratic Republic of (PDRY)—*Asia*: Yemen  
Yemen, Republic of—*Asia*  
Yemen Arab Republic (YAR)—*Asia*: Yemen  
Yugoslavia—*Europe*: Serbia and Montenegro  
Yukon Territory—*Americas*: Canada
- Zaire—*Africa*: Congo, Democratic Republic of  
Zambia—*Africa*  
Zimbabwe—*Africa*

# THE FLAGS OF EUROPE



Albania



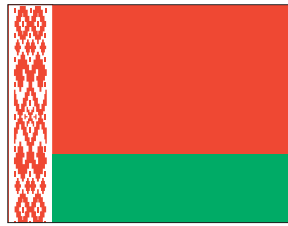
Andorra



Armenia



Austria



Belarus



Belgium



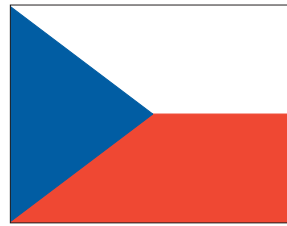
Bosnia and Herzegovina



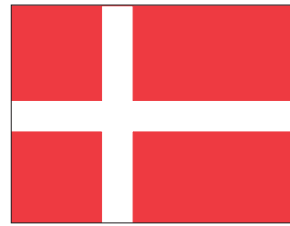
Bulgaria



Croatia



Czech Republic



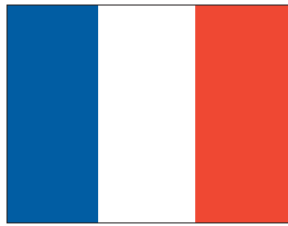
Denmark



Estonia



Finland



France



Georgia



Germany



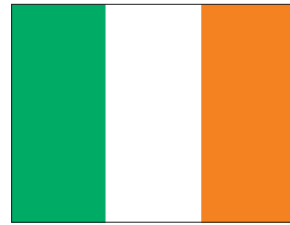
Greece



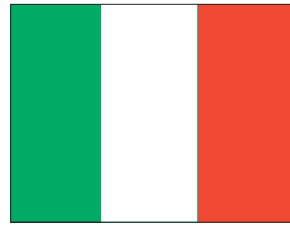
Hungary



Iceland



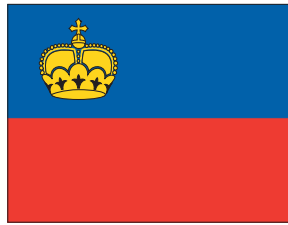
Ireland



Italy



Latvia



Liechtenstein



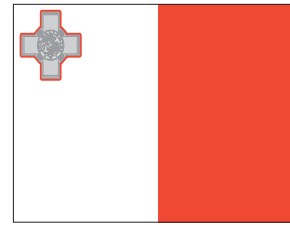
Lithuania



Luxembourg



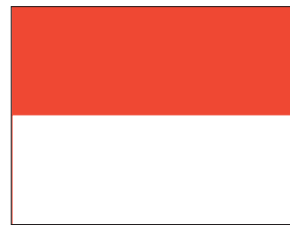
Macedonia



Malta



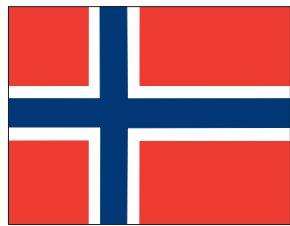
Moldova



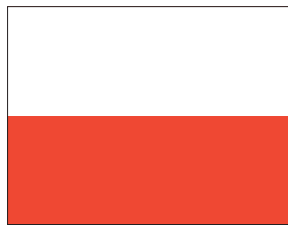
Monaco



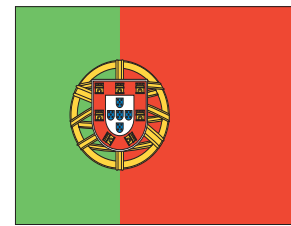
Netherlands



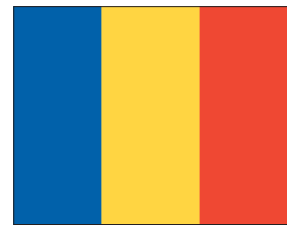
Norway



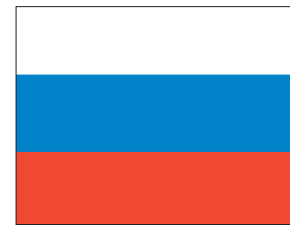
Poland



Portugal



Romania



Russia



San Marino



Serbia and Montenegro



Slovakia



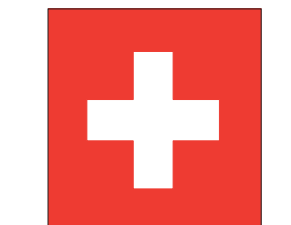
Slovenia



Spain



Sweden



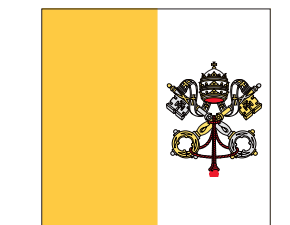
Switzerland



Ukraine



United Kingdom



Vatican